

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

February 24, 2005

The Honorable Mark Sanford, Governor
South Carolina Governor's Office
State House
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Governor's Office for the fiscal year ended June 30, 2004, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink that reads 'Tom Wagner'.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2004

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SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
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DeLOACH & **W**ILLIAMSON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855
FAX: (803) 771-6001

REPORT OF INDEPENDENT AUDITORS

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in *Note 1*, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the Office that comprise the South Carolina Governor's Office reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2004 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Governor's Office as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 and the budgetary comparison information are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Office taken as a whole. The other financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2004, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Releach & Williamson, L.L.P.

December 31, 2004

SOUTH CAROLINA GOVERNOR'S OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the South Carolina Governor's Office (the "Office" or "Agency"), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2004.

Financial Highlights

The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$3,683,593. These funds will be used to meet the office's ongoing obligations.

- The Office's total net assets decreased by \$2,757,545. Most of this decrease is attributable to the distribution of the Tobacco Settlement funds and the Litter Control funds.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$4,502,555, a decrease of \$2,537,754 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$698,314.
- The Office's total debt increased by \$207,689 during the current fiscal year. The key factor in this increase was the transfer of the Continuum of Care to the Governor's Office effective June 2, 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Office's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Governor's Office is improving or deteriorating.

The statement of activities presents information showing how the Office's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned by unused vacation leave).

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The South Carolina Governor's Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office's are classified as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The SC Legislature adopts a budget for all state agencies, including the Governor's Office. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the South Carolina Governor's Office compliance with its adopted budget. Required supplementary information can be found on pages 43-48.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 49-55 of this report.

SOUTH CAROLINA GOVERNOR'S OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

Government Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the South Carolina Governor's Office, assets exceeded liabilities by \$3,683,593 at the close of the most recent fiscal year.

By far the largest portion of the Office's assets (86 percent) represents cash, cash equivalents, and cash held by fiscal agent.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the agency. They are also able to determine how much the agency owes vendors. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the agency.

Net assets are divided into two categories. The first category, invested in capital assets, net of debt, provides the agency equity in equipment owned by the agency. The second category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the agency.

	June 30,	
	2003	2004
Assets		
Current assets	\$ 12,147,466	\$ 7,081,210
Capital assets, net of accumulated depreciation	40,803	28,703
Total Assets	12,188,269	7,109,913
Liabilities		
Current liabilities	5,530,565	3,136,973
Non-current liabilities	216,566	289,347
Total Liabilities	5,747,131	3,426,320
Net Assets		
Invested in capital assets	40,803	28,703
Unrestricted	6,400,335	3,654,890
Total Net Assets	\$ 6,441,138	\$ 3,683,593

SOUTH CAROLINA GOVERNOR'S OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the agency, and the expenses paid by the agency, and any other revenue, expenses, gains, and losses received or spent by the agency.

The statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

At the end of the current fiscal year, the Office is able to report a positive balance in net assets. The same situation held true for the prior fiscal year.

There was a decrease of \$2,757,545 in net assets reported from the prior fiscal year. Most of this decrease was due to the distribution of Tobacco Settlement funds and Litter Control funds.

Condensed Statement of Revenues, Expenses, and Changes in Fund Balances

	Years Ended June 30,	
	2003	2004
Revenue	\$ 57,160,350	\$ 53,192,618
Expenditures	64,923,600	55,575,582
Excess "deficit" of revenue over "under" expenditures	(7,763,250)	(2,382,964)
Other financing uses, gains, or loses	(106,353)	(154,790)
Change in Fund Balance	(7,869,603)	(2,537,754)
Fund Balance-beginning of year	14,909,912	7,040,309
Net assets at end of year	\$ 7,040,309	\$ 4,502,555

SOUTH CAROLINA GOVERNOR'S OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in the net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Depreciation expense of \$18,436 was recorded as required by GASB Statement 34.
- State budget cuts during the year resulted in a loss of \$73,882 in appropriations.

General Fund Budgeting Highlights

General Fund Appropriations were \$1,286,147 less than fiscal year 2003-2004. This can be attributed to a shortfall in total revenue for the state.

Capital Assets and Debt Administration

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2004 amounts to \$28,703 (net of accumulated depreciation). This investment in capital assets includes vehicles and equipment. Currently the Office has no investments in land or buildings.

The Office has a \$500,000 loan from the South Carolina Department of Commerce for the construction of a state veteran's cemetery. Once the project gains final approval of the United States Department of Veteran's Affairs, funds will be available to satisfy the Commerce loan.

Economic Outlook

The agency is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the agency's economic outlook during the fiscal year that started July 1, 2004.

The agency's overall financial position is sound. Even with fluctuations in state funding, the agency level of operations has remained stable. The current fiscal year promises to be similar to that of the last several years, with resources being closely guarded in order to maintain the agency's ability to react to changing economic conditions.

Requests for Information

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the South Carolina Governor's Office, Director of Administrative Services, Post Office Box 12267, Columbia, South Carolina 29211.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 6,101,886
Cash held by fiscal agent	2,965
Accounts receivable	719,541
Federal grant receivable	12,991
Accrued interest	241
Due from the State General Fund	243,586
Total current assets	7,081,210
Noncurrent assets:	
Capital assets:	
Equipment	176,700
Less accumulated depreciation	(147,997)
Total capital assets, net of depreciation	28,703
Total assets	7,109,913
Liabilities	
Current liabilities:	
Accounts payable	1,612,280
Accrued payroll	466,375
Accrued compensated absences	558,318
Notes payable	500,000
Total current liabilities	3,136,973
Noncurrent liabilities:	
Accrued compensated absences	289,347
Total non-current liabilities	289,347
Total liabilities	3,426,320
Net Assets	
Invested in capital assets	28,703
Unrestricted	3,654,890
Total net assets	\$ 3,683,593

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
General government	\$ 6,883,463	\$ -	\$ (6,883,463)
Grants and programs	49,066,699	45,634,490	(3,432,209)
Total primary government	<u>\$ 55,950,162</u>	<u>\$ 45,634,490</u>	(10,315,672)
General revenue:			
State appropriations			7,557,886
Interest income			241
			<u>7,558,127</u>
Change in net assets			(2,757,545)
Net assets - beginning of year			6,441,138
Net assets - end of year			<u>\$ 3,683,593</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2004

	General	Other Funds	Totals
Assets and Other Debits			
Cash and cash equivalents	\$ 968,738	\$ 5,133,148	\$ 6,101,886
Cash held by fiscal agent	-	2,965	2,965
Accounts receivable	-	719,541	719,541
Federal grant revenue receivable	-	12,991	12,991
Accrued interest	-	241	241
Due from the State General Fund	243,586	-	243,586
Total assets	\$ 1,212,324	\$ 5,868,886	\$ 7,081,210
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 270,425	\$ 1,341,855	\$ 1,612,280
Accrued payroll and related liabilities	243,585	222,790	466,375
Notes payable	-	500,000	500,000
Total liabilities	514,010	2,064,645	2,578,655
Fund equity:			
Fund balances:			
Reserved for various restricted purposes	-	3,804,241	3,804,241
Reserved for restricted purposes to be carried forward	698,314	-	698,314
Total fund equity	698,314	3,804,241	4,502,555
Total liabilities and fund equity	\$ 1,212,324	\$ 5,868,886	\$ 7,081,210

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE
BALANCE SHEET - GOVERNMENTAL FUNDS
(CONTINUED)

Reconciliation to the statement of net assets:

Total fund balances - governmental funds \$ 4,502,555

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. These assets consist of:

Equipment	176,700
Accumulated depreciation	(147,997)

Total capital assets 28,703

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Accrued compensated absences	<u>(847,665)</u>
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Net assets of governmental activities	<u><u>\$ 3,683,593</u></u>
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See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Funds</u>	<u>Totals</u>
Revenue			
State appropriations	\$ 7,557,887	\$ -	\$ 7,557,887
Federal grants and programs	-	31,700,275	31,700,275
Other government grants and contributions	-	1,558,925	1,558,925
Interest	-	241	241
Medicaid reimbursements	-	623,139	623,139
Victim restitutions	-	9,066,001	9,066,001
Litter Control Program	-	2,686,150	2,686,150
Total revenue	<u>7,557,887</u>	<u>45,634,731</u>	<u>53,192,618</u>
Expenditures			
Federal grants and programs:			
Personal services	-	1,037,661	1,037,661
Employer contributions	-	294,986	294,986
Other operating	-	335,448	335,448
Case services	-	24,881,745	24,881,745
Claims and awards	-	3,001,524	3,001,524
Distributions to subrecipients	-	985,416	985,416
Finance and administration:			
Personal services	2,466,640	(11,146)	2,455,494
Employer contributions	627,413	2,193	629,606
Other operating	770,754	2,959,861	3,730,615
Claims and awards	-	2,826,850	2,826,850

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(CONTINUED)

	<u>General</u>	<u>Other Funds</u>	<u>Totals</u>
Expenditures (Continued)			
Continuum of Care:			
Personal services	67,361	(884,416)	(817,055)
Other operating	-	475,400	475,400
Case Services	(220,179)	(153,846)	(374,025)
Foster Care:			
Personal services	339,421	308,122	647,543
Employer contributions	90,651	89,354	180,005
Other operating	30,787	127,662	158,449
Distributions to subrecipients	331,042	-	331,042
Guardian Ad Litem:			
Personal services	144,338	1,367,655	1,511,993
Employer contributions	38,549	310,224	348,773
Other operating	113,944	454,147	568,091
Developmental Disabilities:			
Personal services	41,003	-	41,003
Employer contributions	10,951	-	10,951
Other operating	10,799	-	10,799
Distributions to subrecipients	60,196	-	60,196
Ombudsman/Citizen Services:			
Personal services	152,836	71,045	223,881
Employer contributions	40,819	25,658	66,477
Other operating	15,008	39,355	54,363
Victims' Assistance:			
Personal services	-	853,473	853,473
Employer contributions	-	265,563	265,563
Other operating	-	625,008	625,008
Claims and awards	109,159	6,364,313	6,473,472
Distributions to subrecipients	247,788	1,724,468	1,972,256

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(CONTINUED)

	General	Other Funds	Totals
Expenditures (Continued)			
Veterans' Affairs:			
Personal services	556,091	-	556,091
Employer contributions	148,518	-	148,518
Other operating	37,105	435	37,540
Distributions to subrecipients	354,039	-	354,039
POW commission	846	-	846
Children Affairs:			
Personal services	98,559	-	98,559
Employer contributions	26,323	-	26,323
Other operating	11,607	-	11,607
Case services	28,839	-	28,839
Small and Minority Business:			
Personal services	90,207	-	90,207
Employer contributions	24,092	-	24,092
Other operating	17,957	-	17,957
Economic Opportunity:			
Case services	-	302,697	302,697
Mansion donations	-	11,264	11,264
Total expenditures	6,883,463	48,692,119	55,575,582
Excess (deficit) of revenue over (under) expenditures	674,424	(3,057,388)	(2,382,964)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(CONTINUED)

	General	Other Funds	Totals
Expenditures (Continued)			
Other Financing Uses			
Recoveries of indirect costs	-	(154,790)	(154,790)
Total other financing uses	-	(154,790)	(154,790)
Excess (deficit) of revenue over (under) expenditures and other financing uses	674,424	(3,212,178)	(2,537,754)
Fund balances, beginning of year	23,890	7,016,419	7,040,309
Fund balances, end of year	\$ 698,314	\$ 3,804,241	\$ 4,502,555

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(CONTINUED)

	General	Other Funds	Totals
Reconciliation to the statement of activities:			
Net change in fund balances-total governmental funds			\$ (2,537,754)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.			
In the current period, these amounts are:			
Additions to fixed assets		6,441	
Depreciation expense		(18,436)	
Excess of capital outlay over depreciation expense			(11,995)
Some items reported in the statement of activities do not require the uses of current financial resources and therefore, are not reported as expenditures in governmental funds. These activities consist of:			
Loss on disposal of assets			(107)
Increase in compensated absences			(207,689)
Change in net assets of governmental activities			\$ (2,757,545)

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

1. Summary of Significant Accounting Policies

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The South Carolina Governor's Office (herein referred to as the "Governor's Office" and the "Office") is part of the primary government of the State of South Carolina, and its funds are reported in the State's Comprehensive Annual Financial Report. Generally, all state agencies are included in the State's reporting entity. These entities are financially and fiscally dependent on the State.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Governor's Office (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) *and* (1) it is able to impose its will on that organization *or* (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

- (1) Determine its budget without another government having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally dependent on the primary government/entity which holds one or more of those powers. Based on these criteria, the Governor's Office has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Governor's Office.

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The Governor of South Carolina is elected by the general public and administers, has jurisdiction over, and is responsible for the management of the Governor's Office. The Governor's Office is an agency of the State of South Carolina and was established under code section 1-30-110 of the Code of Laws of South Carolina. The laws of the state and the policies and procedures specified by the State for state agencies are applicable to the activities of the Governor's Office. The Governor's Office is composed of four divisions: Mansion and Grounds, Executive Control of State, Office of Executive Policy and Programs, and the State Law Enforcement Division (S.L.E.D.). The S.L.E.D. division is not included in the reporting entity as the State Auditor's Office reports on it separately. Also, the Governor's mansion, buildings, and content assets are not included in this report, as they are owned by a separate commission.

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. Under the Office of Executive Policy and Programs, they are divided into three divisions, Division of Administrative Services, Division of Children Services and Division of Constituent Services (see *Note 15*). Each of these divisions is made of offices, which provide the services mentioned above. The governor appoints directors of the state cabinet agencies. These agencies are not included in the reporting entity.

Government Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Government Wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue are recognized as soon as they are both measurable and available. Revenue are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Governor's Office uses only one fund category, governmental, within which it maintains two fund types, general and special revenue. Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds). Assets are assigned to the various governmental funds according to the purposes for which they may or must be used and current liabilities are assigned to the fund from which they are to be paid. The difference between the assets and the liabilities is the fund balance.

The government reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions funded from State General Fund appropriations of the three divisions of the Governor's Office (Mansion and Grounds, Executive Control of State and Office of Executive Policy and Programs). Separate programs have been established for each department of the Governor's Office that receives State appropriations.

Special Revenue Fund - Special Revenue Funds (also referred to as "Other Funds") are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Separate programs/funds have been established for federal grants and federal programs and for each department of the Governor's Office that administers restricted proceeds. In the current year, these funds have been broken out by department. The Federal Fund is used to account for the proceeds from the United States government.

The other special revenue funds are used to account for all other restricted revenue. Monies received include Education Improvement Act (EIA) allocations and Medicaid funds for the Continuum of Care, victim restitution fees for the State Office of Victim Assistance programs used for claims and awards, revenue received from individual donors, awards and grants and federal programs. Other expenditures include allocations of non-State General Fund monies to various sub-recipients under various federal and other programs, administrative costs of the Governor's Office, direct program services, and claims and awards paid under various federal grants and federal programs.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Budget Policy

The Governor's Office is granted an annual appropriation for operating purposes by the General Assembly. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds.

The Total Funds column includes all budgeted resources, including the State General Fund as well as most federal and department-generated sources. A revenue budget is not adopted for individual budgetary units.

The accompanying financial statements include a Combined Statement of Expenditures - Budget and Actual - All Budgeted Funds. The Budgetary General Fund category on that statement corresponds to the General Funds column in the Appropriations Act and the Other Budgeted Funds category represents the difference between the Total Funds and General Funds columns in the Appropriations Act.

The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate state government for the current fiscal year. Any unexpended State General Fund appropriations lapse to the General Fund of the State on July 31 unless specific authorization is given to carry over the funds to the ensuing fiscal year. Appropriations carried forward for a specific purpose are reported as reserved fund balance. Proviso 72.41 of the 2003/2004 Appropriations Act authorized departments and agencies to carry forward unspent State General Fund appropriations (excluding those for which it has separate carry forward authority) up to ten percent of its original General Fund budget. This carry forward is shown as a designated fund balance.

During the fiscal year closeout period through July, departments and agencies may continue to charge vendor, interagency, and interfund payments applicable to the current year to this fiscal year's appropriation.

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. An explanation of the differences between the budgetary basis and GAAP basis is presented in *Note 2*.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Budget Policy (Continued)

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 Governor's 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*. Transfers of funds may be approved by the State Budget and Control Board (the "Board") under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses of the Board and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Per Proviso 56DD.15 of the 2003-04 Appropriations Act, all other provisions of the law not withstanding, the Office of Executive Policy and Programs section, the Executive Control of State section, and Mansion and Grounds section, shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represents cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Office, participate in the State's internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less at the time of purchase.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The State's internal 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; however, all earnings on that account are credited to the General Fund of the State. The Office records and reports its monies in the general deposit account at cost. The Office reports its monies in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings at the stated rate, gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year-end based on percentage ownership in the pool.

For credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 13*.

Cash Held by Fiscal Agent

The account shown in the financial statements "cash held by fiscal agent" represents amounts transferred to a fiscal agent that has not yet been disbursed by that agent. At June 30, 2004, these funds amounted to \$2,965 and were a part of the Tobacco Loss Assistance Program and the Tobacco Community Trust Fund of the Special Revenue Fund.

Federal Revenue Receivable

Federal grant revenue receivable represents expenditures incurred through June 30, 2004, for federal programs/projects but not reimbursed until fiscal year 2005.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2004, for Special Revenue Fund programs/projects but not reimbursed until fiscal year 2005.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the Governor's Office's original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of gift. The capitalization dollar threshold limit for capital assets is \$5,000, and software is \$100,000. The Office has one class of capital assets, furniture, equipment, which is depreciated on a straight-line basis over the estimated useful lives of 5-12 years.

Compensated Absences

Compensated absences are recorded as short and long-term liabilities account group. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Governor's Office calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer 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. Changes in compensated absences are shown in *Note 11*.

Net Assets/Fund Balances

Net assets are classified and presented in three components in the government-wide financial statements:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Balances (Continued)

Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets”.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the net assets that is not appropriable for future discretionary expenditures. Designations of unreserved fund balances are established to identify tentative managerial plans or unrestricted State General Fund financial resources authorized for carry-forward. Such plans are subject to change and may never be legally authorized or result in expenditure. The unreserved component of fund balances is computed as total net assets less reserved amounts. The undesignated fund balances are unreserved fund balances, which have not been designated by management.

Interfund Transactions-Fund Financial Statements

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Amounts owed for reimbursement at the end of the year are recorded as a liability in the reimbursing fund and a receivable in the fund to be reimbursed. The interfund receivable or payable is liquidated as soon as funds are available from the applicable funding source.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers in the period the transfer is authorized. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the Office. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The remitted cost reimbursements amounted to \$154,790 in fiscal year 2004. The Office did not retain any indirect cost recoveries in fiscal year 2004.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. State Appropriations

The 2003-2004 original appropriations are the base budget amounts for the Mansion and Grounds, the Executive Control of State, and the Office of Executive Policy and Program budgetary units and are presented in the General Funds column of Sections 56D, 56A, and 56C, respectively, of Part IA of the Appropriations Act. The following are reconciliations of adjusted appropriations to the appropriations revenue and General Fund legal basis budget amounts on the Combined Statement of Revenue, Expenditures and Changes in Fund Balances- All Governmental Fund Types and the Combined Statement of Expenditures - Budget and Actual - All Budgeted Funds.

	Mansions and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Original appropriation	\$ 414,990	\$ 1,293,326	\$ 5,679,866	\$ 7,388,182
Appropriations reductions (Part IV of 2004 Appropriations Act):	(4,150)	(12,933)	(56,799)	(73,882)
Revised appropriations - legal basis	410,840	1,280,393	5,623,067	7,314,300
Net adjustments to accrual basis:				
Personal services and employer contributions	12,062	40,843	190,681	243,586
Revenue from state appropriations	\$ 422,902	\$ 1,321,236	\$ 5,813,748	\$ 7,557,886
Revised appropriations	410,840	1,280,393	5,623,067	7,314,300
Brought-forward appropriations from fiscal year ended June 30, 2003:				
(a) Implementing federal programs- match	-	-	117,027	117,027
Legal basis appropriation available for 2004 expenditures	\$ 410,840	\$ 1,280,393	\$ 5,740,094	\$ 7,431,327

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. State Appropriations (Continued)

	Mansions and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Approved carry forward of appropriated funds to fiscal year 2005				
(d) Implementing federal programs- match	\$ 19,580	\$ 30,586	\$ 918,572	\$ 968,738
Less accounts payable	-	(4,930)	(265,495)	(270,425)
Total carry forward accrual basis	\$ 19,580	\$ 25,656	\$ 653,077	\$ 698,313

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2003 for expenditures in fiscal year 2004 and to carry forward unspent appropriations from fiscal year 2004 to expenditure in fiscal year 2005. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2003 Appropriations Act, Proviso 56DD.1
- (b) 2004 Appropriations Act, Proviso 56DD.1

Annual fiscal year 2004 appropriations of \$736,147 for implementing federal programs approved for carry forward to fiscal year 2005 for expenditure for the same purposes. There were no remaining unspent appropriations authorized for carry forward to be reported as unreserved, designated fund balance of the Office's General Fund.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Operating Leases

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Office of General Services. During fiscal year 2004, total payments under this lease were \$368,831. The Governor's Office leases automobiles from the State Budget and Control Board-State Fleet Management on a year-to-year basis. During fiscal year 2004, total payments under this lease were \$178,183. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2004 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$169,740 in fiscal year 2004. These leases expire between 2004 and 2008. Some leases contain renewal options and scheduled rent increases. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2004 and subsequent years. When these leases expire, they will be replaced with similar leases for like real property.

The Governor's Office also has noncancelable operating leases for various copying and data processing equipment. During fiscal year 2004, total payments were \$57,312, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2004 and subsequent years. These leases expire between 2004 and 2008 and do not contain renewal options or escalation clauses. When these leases expire, they will be replaced with similar leases for equipment.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2004, are:

Year Ending June 30,

2005	\$ 484,063
2006	259,993
2007	113,725
2008	14,114
	<u>\$ 871,895</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

4. Due From State General Fund

Accrued payroll and related liabilities represents personal services and employer contribution expenditures accrued at June 30, but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

The amount receivable for accrued payroll and fringe benefits represents amounts due from the State General Fund to fund the Office's general fund personal services and employer contribution costs accrued at June 30, but paid in July for employees paid from State General Fund appropriations. See *Note 2* for detail of the net revenue adjustment by division.

5. Due To State General Fund

At June 30, 2004, the Office had \$0 of appropriations to be remitted back to the State General Fund due to the lapse in funds.

6. Changes In Capital Assets

A summary of changes in capital assets follows:

	Balance July 1, 2003	Additions	Deletions and Retirements	Balance June 30, 2004
Furniture and equipment:				
Executive Control of State	\$ 6,343	\$ -	\$ (6,343)	\$ -
Office of Executive Policy and Programs	170,259	6,441	-	176,700
Accumulated depreciation:				
Executive Control of State	(5,708)	(530)	6,238	-
Office of Executive Policy and Programs	(130,091)	(17,906)	-	(147,997)
Capital assets, net of accumulated depreciation	\$ 40,803	\$ (11,995)	\$ (105)	\$ 28,703

The Office capitalizes qualifying equipment with a unit cost of \$5,000 or more and software greater than \$100,000 with a life of two years or more.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

7. Pension Plan

Substantially all employees of the Governor's Office are eligible to participate in the South Carolina Retirement System and the State Health Insurance Group Plan. The South Carolina Retirement System (SCRS) is a cost-sharing multiple-employer defined benefit public employee retirement system which provides annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees. Section 9-1-480 Code of Laws of South Carolina, 1976 (as amended), states that all State employees unless specifically exempted shall become members of SCRS as a condition of their employment. The responsibility for administration of the systems is assigned by law to the State Budget & Control Board. The Governor's Office has no fiduciary responsibility or further liability for the retirement plan beyond the current contributions.

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

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

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement Division, the Plan Administrator, P.O. Box 11960, Columbia, South Carolina 29211-1960. The South Carolina Retirement System is included in the Comprehensive Annual Financial Report of the State of South Carolina.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

7. Pension Plan (Continued)

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

The Governor's Office total covered payroll for the year ended June 30, 2004, was \$7,583,507. Employees are required to contribute 6% of compensation to the plan. Under Section 9-1-480 of the Code, the Governor's Office's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. The required contributions and the percentages of that amount for the past three years are as follows:

	June 30, 2004	June 30, 2003	June 30, 2002
Employer contribution rate	7.55%	7.55%	7.55%
Employer contribution	\$ 572,555	\$ 633,490	\$ 886,165
Employee contributions	\$ 455,010	\$ 503,436	\$ 704,237

In addition, the Governor's Office paid \$7,672 for group life insurance benefits, which is .10% of covered payroll. In accordance with provisions of the 99/00 State Appropriations Act effective July 1, 1999, a surcharge of 1.95% of covered payroll was added to the employer pension contribution rate applicable to State and Public School entities covered by the State Health Insurance Program. Effective January 1, 2000, the surcharge was increased to 2.16%. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established employer pension contribution rates. The surcharge is remitted to the Retirement Systems for distribution to the State Budget and Control Board-Office of Insurance Services (administering agency for the State health insurance plan).

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

7. Pension Plan (Continued)

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Governor's Office of the actuarially computed value of vested benefits over the total of the applicable pension fund and any balance sheet accruals, less any pension prepayments or deferred charges, is not available. By State law, the Governor's Office's liability under the retirement plan is limited to the amounts contributed during the year. Accordingly, the Governor's Office recognized no contingent liability for unfunded costs associated with participation in the plans.

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

8. Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Office are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. Post-Employment and Other Employee Benefits (Continued)

These benefits are provided through annual appropriations by the General Assembly to the Office for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Office for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The Office recorded employer contributions expenditures within the applicable administrative expenditure categories for these insurance benefits for active employees of \$514,229 for the year ended June 30, 2004. As discussed in *Note 9*, the Office paid \$592,718, for the year ended June 30, 2004, applicable to the surcharge included with the employer contributions for retirement benefits.

Information regarding the cost of insurance benefits applicable to Office retirees is not readily available. By State law, the Office has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

9. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Governor's Office have elected to participate. 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 Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State 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.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Deferred Compensation Plans (Continued)

The State appropriated funds from unspent fiscal year 1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible State employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required agencies to match certain 401(k) contributions of eligible employees whose salaries were funded from its other applicable revenue sources. The appropriated 401(k) match is limited to \$300. To be eligible, an employee must meet the following eligibility requirement:

1. The employee must be a permanent full-time State employee for 24 continuous months as of July 1, 1999 and be employed on the date of distribution and
2. Must have established a 401(k) account with annual contributions equal to the match (permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive this match).

10. Risk Management

The Governor's Office is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Governor's Office pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

10. Risk Management (Continued)

Several state funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Governor's Office pays 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. Theft of, damage to, or destruction of assets;
2. Building contents and equipment;
3. Motor vehicles;
4. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property, equipment, and auto liability. The IRF's rates are determined actuarially.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

10. Risk Management (Continued)

The Governor's Office obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for the director of administration of the Office of Executive Policy and Programs for losses arising from theft or misappropriation. The Governor's Office self-insures itself above this amount because it feels the likelihood of loss is remote. The Governor's Office has not purchased business interruption insurance because management believes the risk of a material loss is a remote likelihood.

The Governor's Office has recorded insurance premium expenditures in the applicable expenditure categories. There is no evidence of asset impairment or other information to indicate that a loss expenditures and liability should be recorded at fiscal year end for uninsured losses. Therefore, no loss accrual had been recorded.

11. Changes In Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2004, were as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Within One Year
Accrued compensated absences:					
Mansion and Grounds	\$ 12,599	\$ 14,405	\$ (876)	\$ 26,128	\$ 14,816
Executive Control of State	30,421	23,641	(407)	53,655	49,815
Office of Executive Policy and Programs	596,956	223,694	(52,768)	767,882	493,687
Notes Payable:					
Veterans Cemetery	500,000	-	-	500,000	500,000
	<u>\$ 1,139,976</u>	<u>\$ 261,740</u>	<u>\$ (54,051)</u>	<u>\$ 1,347,665</u>	<u>\$ 1,058,318</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Transactions With State Entities

The Governor's Office has significant transactions with various State of South Carolina state agencies.

Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; legal services from the Attorney General; interagency mail services from the State Budget and Control Board; and record storage from the Department of Archives and History. The Governor's Office also leases space, equipment and autos from state agencies. See *Note 5* for further disclosure. The Governor's Office paid the State Budget and Control Board \$140,880 for telephone services, \$1,341 for general repair, \$2,278 for motorized vehicle repair, \$365,752 for rent, \$0 for legal services, \$79,067 for computer services, \$32,198 for printing services, \$23 for photocopy services, \$4,006 for postage and freight, \$3,853 for salaries, \$0 for travel, \$5,228 for retirement and \$3,122 for office supplies. The Governor's Office paid the Deaf and Blind School \$180 for professional services. Also, \$752,247 was paid to the State Budget and Control Board Office of Insurance Services for insurance. The State Accident Fund was paid \$39,597 for Worker's Compensation Insurance. The Office paid the Department of Corrections \$486 for office supplies. The Department of Social Services was paid \$9,500, \$78, \$50,000 and \$50,000, respectively, for salaries, procurement card purchases, mileage, reimbursements and housing assistance. The Department of Corrections and the South Carolina Commission of the Blind were paid \$3,526 and \$752 for printing.

The Governor's Office paid the University of South Carolina, the South Carolina Department of Disabilities and Special Needs, \$20,000, and \$5,217, respectively, for contractual services. The Governor's Office paid the South Carolina Department of Health and Human Services, the South Carolina Department of Mental Health and the South Carolina Department of Disabilities and Special Needs \$1,060,000, \$22,567 and \$10,776, respectively, for case services. Also, \$241,653 and \$3,315 were paid to the Medical University of South Carolina and the South Carolina Department of Mental Health for indemnity claims and awards. The Office paid University of South Carolina, and the Budget and Control Board \$1,165 and \$5,828, respectively, for in-state registration fees. The State Budget and Control Board was also paid \$178,183 for leased vehicles. The South Carolina Department of Disabilities and Special Needs was given aid in the amount of \$110,841. The Governor's Office paid \$9,628, \$5,400, and \$19,000 for salaries to Employment Security Commission, Department of Health and Human Services and Clemson University, respectively.

SOUTH CAROLINA GOVERNOR’S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Transactions With State Entities (Continued)

The Governor’s Office paid \$1,972, \$2,823, \$19 and \$106 to the Employment Security Commission in household laundry, payroll expenses, state meals, and state registration fees.

The Governor’s Office paid \$85, \$1,053, \$2,173, and \$304 to the State Budget and Control Board for microfilm, fees, fines, electricity, and payroll expenses, respectively. The Corrections Department was paid \$13,255 for printing. The Governor’s Office allocated \$25,344 and \$1,000 to the Medical University of South Carolina and the Department of Health and Human Services, respectively. There were approximately \$9,200 paid to other state agencies for miscellaneous expenditures.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

13. Cash Deposits

All cash deposits of the South Carolina Governor’s Office are under the control of the State Treasurer, who, by law, has sole authority for investing state funds. Monies for the Tobacco Loss Assistance program are deposited with a fiscal agent as authorized by the State Treasurer’s Office.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

	Financial Statements	Footnotes
Deposits with State Treasurer's Office	\$ -	\$ 6,101,886
Cash and cash equivalents	6,101,886	-
Cash held by fiscal agent	2,965	-
Other deposits	-	2,965
Total	\$ 6,104,851	\$ 6,104,851

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. Cash Deposits (Continued)

Deposits held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2004, 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.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the carrying amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits - Other deposits represent amounts on deposit at year-end with a fiscal agent. These funds are held in an account in the name of the Tobacco Loss Assistance Program and Tobacco Community Trust Fund. At June 30, 2004, the other deposits of the Office were as follows:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Other deposits	\$ 163,127	\$ -	\$ -	\$ 163,127	\$ 2,965

Category 1 deposits are those covered by Federal depository insurance or by collateral held by the Office or by its agent in the Office's name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the Office's name. Category 3 deposits are uncollateralized.

14. Litigation and Contingencies

At June 30, 2004, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties which arose in the normal course of business.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

14. Litigation and Contingencies (Continued)

Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Office. No provision has been made in these financial statements for losses, if any, which might result from litigation pending, threatened, or the combination thereof because there is no evidence to indicate that a loss expenditure and liability should be recorded at year end.

The South Carolina Governor's Office has received grant revenue from several federal agencies. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that refunds, if any, will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

15. Program Classification

The following is how the Office is structured as of fiscal year 2004.

Division of Administrative Services	Division of Children Services	Division of Constituent Services
Office of Finance and Administration	Office of Foster Care Office of Guardian Ad Litem Office of Education Office of Health Services	Office of Veterans' Affairs Office of Commission on Women Office of Ombudsman/Citizen Services Office of Developmental Disabilities Council Office of Victims' Assistance Office of Economic Opportunity Office of Intergovernmental Affairs Office of Small and Minority Business

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

16. Reserved Fund Balances

The reserve for various restricted purposes in the special revenue fund is composed of the following reserved balances by department:

Continuum of Care:	
Case management Medicaid	\$ <u>681,513</u>
Foster Care:	
Local review board	<u>115,233</u>
Victims' Assistance:	
Trust fund for claims	<u>3,145,016</u>
Economic Opportunity:	
Project share	<u>200,395</u>
Guardian Ad Litem:	
Operations	193,176
Contributions	<u>5,061</u>
Total Guardian Ad-Litem	<u>198,237</u>
Ombudsman/Citizen Services:	
Operations	<u>18,765</u>
Veterans Affairs:	
Veterans Cemetery	<u>(476,777)</u>
Finance and Administration:	
Tobacco Settlement	<u>2,965</u>
Federal Program:	
Dual employment	(3,180)
Ombudsman	(28,216)
Health and Human Services	(25,285)
Victims assistance	(3,940)
Economic opportunity	<u>(20,485)</u>
Total federal programs	<u>(81,106)</u>
Total reserved fund balance	<u><u>\$ 3,804,241</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS)
(UNAUDITED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ 961,372	\$ 916,889	\$ 916,889	\$ -
Other Operating Expenses	119,062	126,807	126,807	-
Total Administration	<u>1,080,434</u>	<u>1,043,696</u>	<u>1,043,696</u>	<u>-</u>
II. Employee Benefits				
	<u>212,892</u>	<u>211,041</u>	<u>211,041</u>	<u>-</u>
Total Executive Control of the State	<u>1,293,326</u>	<u>1,254,737</u>	<u>1,254,737</u>	<u>-</u>
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	1,261,354	1,193,221	1,193,221	-
Other Operating Expenses	398,050	347,329	347,329	-
Special Items:				
Implementing Federal Programs	59,044	31,387	31,387	-
National Governor's Association	105,000	98,600	98,600	-
Southern Growth Policies	26,312	26,312	26,312	-
Southern States Energy Board	31,372	31,372	31,372	-
Poet Laureate	-	-	-	-
Appalachian Regional Commission	33,235	33,235	33,235	-
Litter Control Program	-	-	-	-
Southern Governors Association	7,110	7,110	7,110	-
Mining Council	3,427	487	487	-
Littlefield Case	-	-	-	-
Total Administrative Services	<u>1,924,904</u>	<u>1,769,053</u>	<u>1,769,053</u>	<u>-</u>
II. Children Services				
Personal Service	594,332	552,241	552,241	-
Other Operating Expenses	154,333	156,338	156,338	-
Case Services	-	(156,224)	(156,224)	-
Special Items:				
Children's Case Resolution System	109,474	28,839	28,839	-
Protection and Advocacy	334,386	331,042	331,042	-
Total Children Services	<u>1,192,525</u>	<u>912,236</u>	<u>912,236</u>	<u>-</u>
III. Constituents Services				
Personal Service	851,383	800,968	800,968	-
Other Operating Expenses	76,020	80,869	80,869	-
Special Items:				
Victims Rights	110,263	109,159	109,159	-
Victims Witness	203,274	201,241	201,241	-
SC Van	47,017	46,547	46,547	-
POW Commission	4,905	846	846	-

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

(CONTINUED)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Distributions to Subdivisions:				
Aid County - Restricted	357,615	354,039	354,039	-
Aid Other State Agencies	60,804	60,196	60,196	-
Total Constituents Services	<u>1,711,281</u>	<u>1,653,865</u>	<u>1,653,865</u>	-
IV. Employee Benefits	<u>850,756</u>	<u>714,028</u>	<u>714,028</u>	-
Total Executive Control of the State	<u>5,679,466</u>	<u>5,049,182</u>	<u>5,049,182</u>	-
Mansion and Grounds				
I. Administration				
Personal Service	261,594	245,788	245,788	-
Other Operating Expenses	63,226	63,226	63,226	-
Total Administration	<u>324,820</u>	<u>309,014</u>	<u>309,014</u>	-
II. Employee Benefits	<u>90,170</u>	<u>82,246</u>	<u>82,246</u>	-
Total Grounds and Mansion	<u>414,990</u>	<u>391,260</u>	<u>391,260</u>	-
Total Expenditures	<u>\$ 7,387,782</u>	<u>\$ 6,695,179</u>	<u>\$ 6,695,179</u>	<u>\$ -</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
OTHER BUDGETED FUNDS

YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ -	\$ -	\$ -	\$ -
Other Operating Expenses	-	-	-	-
Total Administration	-	-	-	-
II. Employee Benefits				
Total Executive Control of the State	-	-	-	-
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	-	-	-	-
Other Operating Expenses	3,000,000	2,980,000	2,974,054	5,946
Special Items:				
Implementing Federal Programs	-	-	-	-
National Governors Association	-	-	-	-
Southern Growth Policies	-	-	-	-
Southern States Energy Board	-	-	-	-
Poet Laureate	-	-	-	-
Appalachian Regional Commission	-	-	-	-
Litter Control Program	-	-	-	-
Southern Governors Association	-	-	-	-
Mining Council	-	-	-	-
Littlefield Case	-	-	-	-
Total Administrative Services	3,000,000	2,980,000	2,974,054	5,946
II. Children Services				
Personal Service	2,112,408	2,748,860	1,603,596	1,145,264
Other Operating Expenses	848,285	1,240,833	581,816	659,017
Special Items:				
Children's Case Resolution System	-	-	-	-
Protection and Advocacy	-	-	-	-
Total Children Services	2,960,693	3,989,693	2,185,412	1,804,281
III. Constituents Services				
Personal Service	2,427,616	2,327,616	1,794,989	532,627
Other Operating Expenses	11,300,910	12,164,019	10,578,626	1,585,393
Special Items:				
Victims Rights	-	-	-	-
Victims Witness	-	-	-	-
SC Van	-	-	-	-
POW Commission	-	-	-	-

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
OTHER BUDGETED FUNDS

(CONTINUED)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Distributions to Subdivisions:				
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation School Districts	300,000	309,000	289,876	19,124
Allocation Other State Agencies	1,460,000	1,460,000	1,235,530	224,470
Allocation Other Entities	26,853,508	26,844,508	25,719,095	1,125,413
Aid County - Restricted	-	-	-	-
Aid Other State Agencies	-	-	-	-
Total Constituents Services	<u>42,992,034</u>	<u>43,755,143</u>	<u>40,268,116</u>	<u>3,487,027</u>
IV. Employee Benefits	<u>1,429,843</u>	<u>1,537,395</u>	<u>985,785</u>	<u>551,610</u>
Total Office of Executive Policy and Programs	<u>50,382,570</u>	<u>52,262,231</u>	<u>46,413,367</u>	<u>5,848,864</u>
Mansion and Grounds				
I. Administration				
Personal Service	-	-	-	-
Other Operating Expenses	-	-	-	-
Total Administration	-	-	-	-
II. Employee Benefits	-	-	-	-
Total Grounds and Mansion	-	-	-	-
Total Expenditures	<u>\$ 50,382,570</u>	<u>\$ 52,262,231</u>	<u>\$ 46,413,367</u>	<u>\$ 5,848,864</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2004

Note 1. Budgetary Funds:

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

General Funds. These funds are general operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriations Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

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 Budgeted Funds*.

Note 2. Legal Level of Budgetary Control:

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2002-2003 fiscal year has approximately 2,600 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

(CONTINUED)

Note 3. Basis of Budgeting:

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

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

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20.
- (ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
- (iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, and retail sales taxes.
- (iv) Certain non-cash activity, such as fool stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

Note 4. Reconciliation of Budget to GAAP Reporting Differences:

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.

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS -

GENERAL FUND BY DIVISION

JUNE 30, 2004

	<u>Mansions and Grounds</u>	<u>Executive Control of State</u>	<u>Office of Executive Policy and Programs</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 19,580	\$ 30,586	\$ 918,572	\$ 968,738
Due from the State General Fund	12,062	40,843	190,681	243,586
Total assets	<u>\$ 31,642</u>	<u>\$ 71,429</u>	<u>\$ 1,109,253</u>	<u>\$ 1,212,324</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 4,930	\$ 265,495	\$ 270,425
Accrued payroll and other liabilities	12,062	40,843	190,680	243,585
Total liabilities	<u>12,062</u>	<u>45,773</u>	<u>456,175</u>	<u>514,010</u>
Fund equity:				
Fund balances				
Reserved for restricted appropriations to be carried forward	19,580	25,656	653,078	698,314
Total fund equity	<u>19,580</u>	<u>25,656</u>	<u>653,078</u>	<u>698,314</u>
Total liabilities and fund equity	<u>\$ 31,642</u>	<u>\$ 71,429</u>	<u>\$ 1,109,253</u>	<u>\$ 1,212,324</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -

GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2004

	Mansions and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Revenue				
State appropriations	\$ 422,902	\$ 1,321,236	\$ 5,813,749	\$ 7,557,887
Total revenue	<u>422,902</u>	<u>1,321,236</u>	<u>5,813,749</u>	<u>7,557,887</u>
Expenditures				
Finance and Administration:				
Personal services	257,850	957,732	1,251,058	2,466,640
Employer contributions	82,246	211,041	334,126	627,413
Other operating	63,226	126,807	580,721	770,754
Continuum of Care:				
Personal services	-	-	67,361	67,361
Case services	-	-	(220,179)	(220,179)
Foster Care:				
Personal services	-	-	339,421	339,421
Employer contributions	-	-	90,651	90,651
Other operating	-	-	30,787	30,787
Distributions to subdivisions	-	-	331,042	331,042
Guardian Ad Litem:				
Personal services	-	-	144,338	144,338
Employer contributions	-	-	38,549	38,549
Other operating	-	-	113,944	113,944
Developmental Disabilities:				
Personal services	-	-	41,003	41,003
Employer contributions	-	-	10,951	10,951
Other operating	-	-	10,799	10,799
Distributions to subdivisions	-	-	60,196	60,196
Ombudsman/Citizen Services:				
Personal services	-	-	152,836	152,836
Employer contributions	-	-	40,819	40,819
Other operating	-	-	15,008	15,008

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -

GENERAL FUND BY DIVISION

(CONTINUED)

	Mansions and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Victims' Assistance:				
Claims and awards	-	-	109,159	109,159
Distributions to subrecipients	-	-	247,788	247,788
Veterans' Affairs:				
Personal services	-	-	556,091	556,091
Employer contributions	-	-	148,518	148,518
Other operating	-	-	37,105	37,105
Distributions to subdivisions	-	-	354,039	354,039
POW commission	-	-	846	846
Children Affairs:				
Personal services	-	-	98,559	98,559
Employer contributions	-	-	26,323	26,323
Other operating	-	-	11,607	11,607
Case services	-	-	28,839	28,839
Small and Minority Business:				
Personal services	-	-	90,207	90,207
Employer contributions	-	-	24,092	24,092
Other operating	-	-	17,957	17,957
Remitted to State General Fund	-	-	-	-
Total expenditures	403,322	1,295,580	5,184,561	6,883,463
Excess of revenue over (under)				
expenditures	19,580	25,656	629,188	674,424
Fund balances, beginning of year	-	-	23,890	23,890
Fund balances, end of year	<u>\$19,580</u>	<u>\$25,656</u>	<u>\$653,078</u>	<u>\$698,314</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -

GENERAL FUND BY DIVISION

(CONTINUED)

	Mansions and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Small and Minority Business:				
Personal services	-	-	90,207	90,207
Employer contributions	-	-	24,092	24,092
Other operating	-	-	17,957	17,957
Remitted to State General Fund	-	-	-	-
Total expenditures	403,322	1,295,580	5,019,233	6,718,135
Excess of revenue over (under) expenditures	19,580	25,656	629,188	674,424
Fund balances, beginning of year	-	-	23,890	23,890
Fund balances, end of year	<u>\$ 19,580</u>	<u>\$ 25,656</u>	<u>\$ 653,078</u>	<u>\$ 698,314</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER FUNDS

JUNE 30, 2004

	Federal Grants and Programs	Finance and Adminis- tration	Continuum of Care	Foster Care	Guardian Ad Litem	Ombudsman/ Citizen Services	Victims' Assistance	Economic Opportunity	Veterans' Affairs	Mansion Donations	Total
Assets											
Cash and cash equivalents	\$ 310,130	\$ 244,789	\$ 595,356	\$ 103,287	\$ 202,835	\$ 22,641	\$ 3,430,733	\$ 200,395	\$ 22,982	\$ -	\$ 5,133,148
Cash held by fiscal agent	-	2,965	-	-	-	-	-	-	-	-	2,965
Federal grant revenue receivable	12,822	-	-	-	169	-	-	-	-	-	12,991
Accounts receivable	77,821	42,303	389,757	44,223	88,247	-	77,190	-	-	-	719,541
Accrued interest	-	-	-	-	-	-	-	-	241	-	241
Total assets	<u>\$ 400,773</u>	<u>\$ 290,057</u>	<u>\$ 985,113</u>	<u>\$ 147,510</u>	<u>\$ 291,251</u>	<u>\$ 22,641</u>	<u>\$ 3,507,923</u>	<u>\$ 200,395</u>	<u>\$ 23,223</u>	<u>\$ -</u>	<u>\$ 5,868,886</u>
Liabilities and Fund Equity											
Liabilities:											
Accounts payable	\$ 432,335	\$ 287,092	\$ 252,388	\$ 11,534	\$ 37,490	\$ 146	\$ 320,870	\$ -	\$ -	\$ -	\$ 1,341,855
Accrued payroll and related liabilities	49,544	-	51,212	20,743	55,524	3,730	42,037	-	-	-	222,790
Notes payable	-	-	-	-	-	-	-	-	500,000	-	500,000
Total liabilities	<u>481,879</u>	<u>287,092</u>	<u>303,600</u>	<u>32,277</u>	<u>93,014</u>	<u>3,876</u>	<u>362,907</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>2,064,645</u>
Fund balances	(81,106)	2,965	681,513	115,233	198,237	18,765	3,145,016	200,395	(476,777)	-	3,804,241
Total liabilities and fund equity	<u>\$ 400,773</u>	<u>\$ 290,057</u>	<u>\$ 985,113</u>	<u>\$ 147,510</u>	<u>\$ 291,251</u>	<u>\$ 22,641</u>	<u>\$ 3,507,923</u>	<u>\$ 200,395</u>	<u>\$ 23,223</u>	<u>\$ -</u>	<u>\$ 5,868,886</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER FUNDS

YEAR ENDED JUNE 30, 2004

	Federal Grants and Programs	Finance and Adminis- tration	Continuum of Care	Foster Care	Guardian Ad Litem	Ombudsman/ Citizen Services	Victims' Assistance	Economic Opportunity	Veterans' Affairs	Mansion Donations	Total
Revenue											
Federal grants and programs	\$ 30,423,951	\$ -	\$ -	\$ 302,958	\$ 973,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,700,275
Other government grants and contributions	-	-	-	-	1,002,817	158,049	100	397,959	-	-	1,558,925
Interest	-	-	-	-	-	-	-	-	241	-	241
Medicaid reimbursements	-	-	345,048	247,083	125	-	30,883	-	-	-	623,139
Victim restitution	-	-	-	-	-	-	9,066,001	-	-	-	9,066,001
Litter Control Program	-	2,686,150	-	-	-	-	-	-	-	-	2,686,150
Total revenue	30,423,951	2,686,150	345,048	550,041	1,976,308	158,049	9,096,984	397,959	241	-	45,634,731
Expenditures											
Administration:											
Personal services	1,037,661	(11,146)	(884,416)	308,122	1,367,655	71,045	853,473	-	-	-	2,742,394
Employer contributions	294,986	2,193	-	89,354	310,224	25,658	265,563	-	-	-	987,978
Other operating	335,448	2,959,861	475,400	127,662	454,147	39,355	625,008	-	435	11,264	5,028,580
Special items:											
Case services	24,881,745	-	(153,846)	-	-	-	-	302,697	-	-	25,030,596
Claims and awards	3,001,524	2,826,850	-	-	-	-	6,364,313	-	-	-	12,192,687
Distributions to subrecipients:											
Allocations to other state agencies	985,416	-	-	-	-	-	1,724,468	-	-	-	2,709,884
Total expenditures	30,536,780	5,777,758	(562,862)	525,138	2,132,026	136,058	9,832,825	302,697	435	11,264	48,692,119
Excess of revenue over (under) expenditures	(112,829)	(3,091,608)	907,910	24,903	(155,718)	21,991	(735,841)	95,262	(194)	(11,264)	(3,057,388)

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER FUNDS

(CONTINUED)

	Federal Grants and Programs	Finance and Adminis- tration	Continuum of Care	Foster Care	Guardian Ad Litem	Ombudsman/ Citizen Services	Victims' Assistance	Economic Opportunity	Veterans' Affairs	Mansion Donations	Total
Other financing sources (uses):											
Recoveries of indirect costs of federal grants and certain earmarked funds remitted to the General Fund of the State	(154,790)	-	-	-	-	-	-	-	-	-	(154,790)
Excess of revenue over (under) expenditures and other uses	(267,619)	(3,091,608)	907,910	24,903	(155,718)	21,991	(735,841)	95,262	(194)	(11,264)	(3,212,178)
Fund balances, beginning of year	186,513	3,094,573	(226,397)	90,330	353,955	(3,226)	3,880,857	105,133	(476,583)	11,264	7,016,419
Fund balances, end of year	<u>\$ (81,106)</u>	<u>\$ 2,965</u>	<u>\$ 681,513</u>	<u>\$ 115,233</u>	<u>\$ 198,237</u>	<u>\$ 18,765</u>	<u>\$ 3,145,016</u>	<u>\$ 200,395</u>	<u>\$ (476,777)</u>	<u>\$ -</u>	<u>\$ 3,804,241</u>

SINGLE AUDIT SECTION

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Education		
Rehabilitation Services-Client Assistance Program	84.161	137,839
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	2,150,606
U. S. Department of Justice		
*Crime Victim Compensation	16.576	3,110,141
U. S. Department of Health and Human Services		
*Low Income Home Energy Assistance	93.568	12,790,844
Community Services Block Grant	93.569	9,640,387
Community Services Block Grant Training and Technical Assistance	93.570	7,922
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	93.571	65,892
Social Services Block Grant	93.667	821,316
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,296,596

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(CONTINUED)

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
S.C. Department of Social Services		
Foster Care-Title IV-E	93.658	401,779
Guardian Ad Litem-Temporary Assistance for Needy Families	93.558	373,611
U. S. Department of Housing and Urban Development		
*Emergency Shelter Grants Program	14.231	1,417,518
U. S. Department of Public Safety		
Crime Victim Ombudsman	16.575	26,101
Grand Total		<u>\$ 32,240,552</u>

The accompanying notes are an integral part of this schedule.

**Denotes major program*

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Note 1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant and federal program activity of South Carolina Governor's Office (the "Office") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2. Subrecipients:

Of the federal expenditures presented in the schedule, the South Carolina Governor's Office provided federal awards to subrecipients as follows:

Federal Grantor/ Program Title	Federal CFDA Number	Amount Provided to Subrecipients
U. S. Department of Health and Human Services		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 985,416
Community Services Block Grant	93.569	9,123,397
Low Income Home Energy Assistance	93.568	12,358,815
Community Services Block Grant Discretionary Awards- Community Food and Nutrition	93.571	65,892
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	1,983,747
U. S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	1,349,894
Total provided to subrecipients		<u>\$ 25,867,161</u>

DeLOACH & **W**ILLIAMSON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855
FAX: (803) 771-6001

**Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Governor's Office as of and for the year ended June 30, 2004, and have issued our report thereon dated December 31, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Carolina Governor's Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Carolina Governor's Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items [SCG004-1, SCG004-2, SCG004-3].

This report is intended solely for the information and use of the Governor, management of the Governor's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rebeck & Williamson, L.L.P.

December 31, 2004

D_eLOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina Governor's Office with the types of compliance requirements described in the US. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The South Carolina Governor's Office's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina Governor's Office management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Carolina Governor's Office compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Carolina Governor's Office's compliance with those requirements.

As described in item [SCG004-1 and SCG004-2] in the accompanying schedule of findings and questioned costs, South Carolina Governor's Office did not comply with the requirements regarding subrecipient monitoring that are applicable to its Low Income Home Energy Assistance and Weatherization Assistance for Low Income Persons Programs.

As described in item [SCG004-3] in the accompanying schedule of findings and questioned costs, South Carolina Governor's Office did not comply with the requirements regarding earmarking that are applicable to its Emergency Shelter Grant Program. Compliance with such requirements is necessary, in our opinion, for South Carolina Governor's Office to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, South Carolina Governor's Office complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the South Carolina Governor's Office is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina Governor's Office's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect South Carolina Governor's Office's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items SCG004-1 and SCG004-2, or SCG004-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Governor, management of the Governor's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rebeck & Williamson, L.L.P.

December 31, 2004

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

Summary of Auditors' Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Governor's Office.
2. No material weaknesses relating to the financial statements are reported in the Report on Compliance and Internal Control over Financial Reporting on an audit of Financial Statements performed in accordance with *Government Auditing Standards*.
3. Three instances of noncompliance (SCG004-1, SCG004-2, SCG004-3) material to the financial statements of the South Carolina Governor's Office's were disclosed during the audit.
4. Three reportable conditions (SCG004-1, SCG004-2, SCG004-3) relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the South Carolina Governor's Office's expresses an Unqualified Opinion except for Low Income Home Energy Assistance and the Emergency Shelter Grants Program which were qualified.
6. Audit findings relative to the major federal award programs for South Carolina Governor's Office consist of (SCG004-1, SCG004-2, SCG004-3) included below in this schedule.
7. Major federal programs:
 - (1) Crime Victim Compensation – CFDA #16.576
 - (2) Low Income Home Energy Assistance – CFDA # 93.568
 - (3)Emergency Shelter Grants Program – CFDA #14.231
8. The threshold for distinguishing between Type A and Type B Programs was \$967,213.
11. South Carolina Governor's Office qualified to be a low risk auditee.

Financial Statement Findings:

See Federal Awards Findings and Questioned Costs.

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

Federal Awards Findings and Questioned Costs:

- a. United States Department of Health and Human Services
Low Income Home Energy Assistance

SCG004-1 Sub recipient Monitoring

Condition: The Sub grant Recipients of the Grant are not being monitored properly to ensure compliance with applicable Federal Regulations.

Criteria: The U.S. Department of Health and Human Services regulations require that the sub recipient be monitored through site visits, reporting, and analysis. The requirements for sub recipient monitoring are contained in the 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133 (§____.225 and §____.400(d)), A-102 Common Rule (§____.37 and §____.40(a)), and OMB Circular A-110 (§____.51(a)).

Questioned Costs: The questioned costs for this incident is in the amount of \$11,212.96.

Context: The Low Income Home Energy Assistance program had to stop granting funds to the Berkeley-Dorchester Counties EDC due to material mismanagement and a lack of internal controls for federal expenditures.

Effect: Non-compliance with these monitoring issues may result in a requirement by the U.S. Department of Health and Human Services to withdraw funding, or cause the sub recipient to no longer receive Federal Funds.

Recommendation: We recommend that management improve sub recipient monitoring.

Management's Response:

Management is aware of the above condition and is making corrective actions. The following is a detailed analysis of the procedures that the Governor's Office has instituted.

• **Berkeley-Dorchester - LIHEAP**

1. **9/3-5/03** – 1st Team Visit to monitor and provide training and technical assistance (requested by B/D Executive Director due to some weaknesses in agency) and to address Board non-compliance; B/Ds response to this visit 10/28/03
2. **1/14-16/04** – 2nd Team Visit to monitor and provide training and technical assistance (this is when major problems discovered); B/Ds response to this visit 2/13/04 (some corrective actions completed but others unresolved to incl. board non-compliance)
3. **1/04** - OEO turns case over to SLED for further investigation
4. **2/13/04** - OEO notified by B/D that (4) staff claiming fraudulent travel was on probation and making restitution
5. **2/23/04** – B/D sends letter indicating the Leon Shuler has been acting board chair since 1999, board minutes included were not appropriate for this decision

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

6. **7/04** – SLED turns case back to OEO (amount of money in question was not enough for SLED to investigate further) for OEO to handle administratively
7. **7/21-23/04** – OEO Weatherization Monitoring Visit (major problems discovered during this visit)
8. **9/14/04** – OEO sends report to B/D citing findings identified at 7/21-23 visit
9. **10/14-15 and 11/30-12/3/04** – OEO visits weatherized dwellings to determine compliance and conducts audit of all OEO funded programs
10. **Ongoing during fall months in 2004** - OEO auditors examine daily/weekly trial balances from B/D and discover that the agency does not have enough cash in their account to cover appropriate balance for OEO funded programs
11. **12/15/04** – OEO auditor sends report to B/D recommending transferring WAP to another CAA
12. **12/31/04** – OEO auditor sends report to B/D recommending transfer of LIHEAP & Project Share to another CAA
13. **1/13/05** - OEO auditor sends report to B/D recommending transferring CSBG to another CAA
14. **1/19/05** – B/Ds Executive Director and his agency's attorneys (Tecklenburg Law Firm) met with the deputy chief of staff. OEOs 12/15 & 31/04 and 1/13/05 letters
15. **1/19/05** - decision was made to place B/D on probation for all OEO funded programs (programs would not be transferred but remain with agency under probationary status)
16. **2/1/05** – letter sent to B/D notifying agency and board members of probation decision, requirements during the period and terms/conditions of 120 day probation period
17. **2/17-18/05** – OEO team will visit B/D to discuss all requirements and review pertinent documents to start probation
18. **2/1-5/31/05** - OEO will provide strict oversight and training and technical assistance throughout probationary period

b. United States Department of Energy Weatherization Assistance Program

SCG004-2 Sub recipient Monitoring

Condition: The Sub grant Recipients of the Grant are not being monitored properly to ensure compliance with applicable Federal Regulations.

Criteria: The U.S. Department of Energy regulations require that the sub recipient be monitored through site visits, reporting, and analysis. The requirements for sub recipient monitoring are contained in the 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133 (§____.225 and §____.400(d)), A-102 Common Rule (§____.37 and §____.40(a)), and OMB Circular A-110 (§____.51(a)).

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

Questioned Costs: The questioned costs for this incident are in the amount of \$27,972.04.

Context: The Weatherization Assistance program had to stop granting funds to the Chesterfield-Marlboro Economic Opportunity Council due to persistent lack of communication, oversight and inadequate internal controls, and they had to close the Piedmont Community Actions, Inc. due to material findings and problematic areas in the agency's management of the program.

Effect: Non-compliance with these monitoring issues may result in a requirement by the U.S. Department of Energy to withdraw funding, or cause the sub recipient to no longer receive Federal Funds.

Recommendation: We recommend that management improve sub recipient monitoring.

Management's Response:

Management is aware of the above condition and is making corrective actions. The following is a detailed analysis of the procedures that the Governor's Office has instituted.

- **Chesterfield-Marlboro – Weatherization**

1. 2001 - Initial problems identified through monthly fiscal reporting to OEO – OEO fiscal staff noticed things that suggested internal fiscal concerns with the agency
2. **10/24/01** – OEO required trial balances from all CAAs
3. OEO fiscal informed agency that a typed trial balance was not acceptable and required that a system generated report indicating revenue, expenditures and cash balances had to be submitted
4. In 2002, agency over expended energy assistance and had to be given an advance from 2003 program funds then over expended 2003 energy assistance too
5. **1/3/03** – OEO letter sent indicating WAP problems that had been identified
6. **1/16/03** – Independent Auditor notified OEO that they were unable to prepare and audit report because there was no accounting system
7. **3/4/03** – Agency's board and HHS notified of #4 above by our auditor
8. **3/25/03** – DOE notified of #4 above by our auditor
9. **6/23-25/03** – OEO Team visit
10. **7/01/03** – OEO letter sent to agency citing deficiencies and recommendations for corrections; agency responded 9/2/03 and submitted corrective action plan for OEO approval; OEO sent letter acknowledging receipt 9/30/03
11. **8/18-21/03** - OEO visited to discuss identified WAP problems
12. **10/7-8/03** – OEO revisited to assist agency with correcting WAP problems
13. **12/5/03** – Follow-up team visit to assist agency with correcting problems
14. **2/10-11/04** – OEO audit performed
15. **2/18-19/04** – follow-up OEO audit performed
16. **3/4/04** – agency's fiscal office dismissed because of her inability to do job

SOUTH CAROLINA GOVERNOR'S OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

17. **3/25/04** – OEO notified agency of decision to move WAP because ongoing problems had not been resolved even after several team visits, corrective action plan that had not been adhered to, and audit reviews to include amount of disallowed costs (\$13,074.19)
 18. **3/29/04** – agency hires new fiscal director
 19. **4/9/04** – agency Executive Director sent letter asking for reconsideration
 20. **5/5/04** – DEO informed OEO particulars re. timeframes for agencies to repay
 21. **5/12/04** – Exec. Dir. responded to OEOs 3/25/04 letter
 22. **5/24/04** – Letter sent indicating payment schedule to remit disallowed costs to OEO
 23. **5/25/04** – OEO responded with denial for reconsideration
 24. **6/10/04** – OEO team met with agency's board of directors to discuss ongoing problems and assistance provided to correct problems
 25. **6/29/04** – letter from exec. dir. listing corrective action to be taken by agency
 26. Program transferred to another CAA
 27. **Currently**, agency has remitted \$11,866.57 to OEO for WAP disallowed costs and they owe \$1,207.66 by 3/31/05
 28. The agency will have the option to regain the program for FY 2005, which commences 4/1/05. A corrective plan must be submitted to OEO by March 1, 2005 for approval and the WAP will be placed on "high risk" status for 1 program year ending 3/31/06.
- **Piedmont - Weatherization**
 1. **11/18-20/03** - OEO performed program monitoring
 2. **1/21-23/04** - OEO did follow-up monitoring due to problems identified in prior visit
 3. **3/1/04** – OEOs report forwarded to agency officially citing numerous problems and indicating amount of disallowed costs due OEO (\$15,695)
 4. **3/25/04** – OEO sent letter suspending WAP with required corrections
 5. **7/14/04** – Fiscal monitoring letter sent to agency
 6. Program transferred to another CAA
 7. **Currently**, agency has remitted disallowed cost in the amount of \$13,733.15 to OEO and owe \$1,961.88 which is due by 3/1/05
 8. The agency will have the option to regain the program for FY 2005, which commences 4/1/05. A corrective plan must be submitted to OEO by March 1, 2005 for approval and the WAP will be placed on "high risk" status for 1 program year ending 3/31/05

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

c. United States Department of Housing and Urban Development
Emergency Shelter Grants Program

SCG004-3 Earmarking of Funds

Condition: The Emergency Shelter Grants program are using more than the required amount of funding for essential services.

Criteria: The U.S. Department of Housing and Urban Development regulations allow states to use up to 30% of their funding for essential service expenditures. The Governor's Office has the responsibility to monitor the amount of essential service funds that are being paid out. These regulations can be found at (24 CFR section 576.21 (b)).

Questioned Costs: The questioned costs for this incident are in the amount of \$48,283.

Effect: Non-compliance with the earmarking of funds percentage could cause the Department of Housing and Urban Development to withdraw funding to the Emergency Shelter Program.

Recommendation: We recommend that management improve the monitoring of the expenditures for essential services to know that they are not more than 30% of the grant award.

Management's Response:

- **OEO - Emergency Shelter Grant**

All conditions imposed by HUD have been adhered to and the over expenditure of the essential services category issue has been corrected. OEO has instituted a monitoring requirement to ensure that this situation does not reoccur. OEO management is imposing corrective actions for staff person responsible for monitoring and handling budgets for this program.

Status of Prior Year Findings:

No prior year audit findings.