

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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June 15, 2005

The Honorable Mark Sanford, Governor
and
Mr. Boykin Rose, Director
South Carolina Department of Public Safety
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Public Safety for the fiscal year ended June 30, 2004, was issued by Rogers & Laban, P.A., 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 cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

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CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Public Safety (the Department) 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 Department'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 Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Department's financial statements are intended to present the financial position and results of operations of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the Department. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental fund activities, each major fund and the aggregate remaining fund information of the Department as of June 30, 2004 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the financial statements but is 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 Department taken as a whole. The supplementary 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.



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The Department discovered errors in the application of accounting principles regarding the recording of certain assets and liabilities as of June 30, 2003 and in the amount of assets shown as transferred to the Department of Motor Vehicles in the prior year and made applicable adjustments. The adjustments and corrections of these errors were accounted for as prior period adjustments and are detailed in Note 17.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2005, 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.

Roger + Lalan, PA

June 7, 2005

Management's Discussion and Analysis

In this section, we provide a narrative overview and analysis of the Agency's financial performance for the fiscal year ended June 30, 2004. Please read it together with the Department's financial statements, which follow this section.

I. Overview of the Financial Statements

This discussion and analysis provides an introduction to the Department of Public Safety's basic financial statements, which include the following areas: entity-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information.

Entity-wide Financial Statements

The entity-wide statements present a longer-term view of the Department's finances as a whole, using accrual-basis accounting - the same accounting methods that most businesses use.

There are two entity-wide financial statements:

Statement of net assets: This statement presents the information on all of the Department's assets and liabilities, both short-term (current) and long-term (non-current). In addition, the statement reports the difference between assets and liabilities as net assets. Over time, increases and decreases in net assets may indicate whether the Department's financial position is strengthening or weakening.

Statement of activities: This statement presents the information showing how the Department's overall net assets changed during the year. The Department reports a change in its net assets as soon as an underlying event occurs that would cause a change. The statement of activities accounts for all current year revenues and expenses, regardless of when the Department received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, this statement's format is quite different from the format of a business's income statement. The statement of activities can help show how much it costs the Department to provide various services. It also can help to show the extent to which each Department function covers its own costs through user fees, charges, or grants. The net revenue (expense) column on the far right of this statement shows how much a particular function relies on taxes and other general revenues to finance its programs.

The entity-wide statements can report three different kinds of activities:

Governmental activities: All of the Department's services are included in this category. The Department uses State Appropriations, taxes and court fines to finance the overall operation of the Department. Some Federal funds are also included in the Department's activities.

Business-type activities: These activities usually recover all, or a significant portion of the cost of their services or goods by charging fees to customers. At this time the Department did not have services that qualified as Business-type activities.

Component units: These activities are legally separate entities, which have elected officials that are financially accountable. At this time the Department does not have any component units.

Fund Financial Statements

The fund financial statements of this report provide detailed information about the Department's most significant funds. Funds are accounting devices that the Department uses to track specific funding sources and spending for particular purposes. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department reports two types of funds:

Governmental funds: The Department reports a majority of its basic services in governmental funds. Governmental funds account for activities that the Department reports as governmental activities in its entity-wide statements. These funds focus on short-term inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the future. Because the governmental fund statements lack the additional long-term focus of the entity-wide statements, we provide a reconciliation that explains the relationship (or differences) between the two kinds of statements.

Fiduciary funds: The Department is the trustee, or fiduciary, for some of the funds it collects. We exclude these activities from the Department's entity-wide financial statements because the Department cannot use these assets to finance its operation. The Department is responsible for ensuring that the assets it reports in fiduciary funds are used for their intended purpose.

Notes to the Financial Statements

Immediately following the financial statements are notes that help explain some of the information in the financial statements and provide more detailed data. The notes are necessary to fully understand the financial statements.

Supplementary Information

In addition to the required elements above, we have prepared combining financial statements that provide more detail of the Department's agency funds.

II. Entity-wide Financial Analysis

Exhibits 1 and 2 summarize the Department's overall financial position and results of operations for the past two years based on the information included in the entity-wide financial statements.

	Exhibit 1		
	2003 <u>Restated</u>	<u>2004</u>	<u>Percentage Change</u>
Assets			
Current and Other	\$ 51,857,321	\$38,162,393	(26.41)
Capital	<u>49,115,122</u>	<u>34,148,048</u>	<u>(30.47)</u>
Total assets	<u>100,972,443</u>	<u>72,310,141</u>	<u>(28.39)</u>
Liabilities			
Long-term liabilities	27,971,761	26,791,289	(4.23)
Other liabilities	<u>41,921,037</u>	<u>26,907,603</u>	<u>(35.81)</u>
Total liabilities	<u>69,892,798</u>	<u>53,698,892</u>	<u>(23.17)</u>
Net Assets			
Invested in capital assets, net of debt	25,949,851	11,928,725	(54.04)
Restricted	3,900,142	1,009,621	(74.11)
Unrestricted	<u>1,229,652</u>	<u>5,673,203</u>	<u>361.37</u>
Total net assets	<u>\$31,079,645</u>	<u>\$18,611,549</u>	<u>(40.12)</u>
Total liabilities and net assets	<u>\$100,972,443</u>	<u>\$72,310,441</u>	<u>(28.39)</u>

Net Assets

As noted earlier, net assets may serve, over time, as a useful indicator of the Department's financial position. For the 2003-2004 accounting year, the Department's net assets totaled \$18.611 million. However, most of these net assets were invested in capital assets (such as buildings, or equipment). The unrestricted net assets reported a balance of \$5.673 million.

The largest portion of the Department's net assets reflects its investments in capital assets, less any related debt used to acquire those assets that are still outstanding. The Department uses these assets to provide services to state citizens, so they are unavailable for future spending.

The continued reduction in the overall Net Assets valuation was caused by the Memorandum of Understanding (MOU) reached with the South Carolina Department of Motor Vehicles (DMV), which resulted in an \$11,197,160 transfer of net assets to DMV.

Exhibit 2
Statement of Activities – Condensed

	<u>2003</u> <u>Restated</u>	<u>2004</u>	Percentage <u>Change</u>
Program Revenues			
Charges for services	\$ 42,128,834	\$ 34,622,846	(17.82)
Operating grants and contributions	33,324,768	28,922,263	(13.21)
Capital grants and contributions	4,690,048	(105,594)	(102.25)
General Revenues			
State appropriations	97,326,227	61,760,627	(36.54)
Taxes and fees	115,140,174	0	N/A
Other	<u>4,574,527</u>	<u>44,454</u>	<u>(99.03)</u>
Total Revenues	<u>298,269,013</u>	<u>125,244,596</u>	<u>(57.86)</u>
Expenses			
Public Safety programs	<u>(203,343,161)</u>	<u>(125,928,453)</u>	<u>(38.07)</u>
Excess before transfers and remittances	<u>93,841,417</u>	<u>(683,857)</u>	<u>(100.73)</u>
Transfers and remittances			
General Fund of the State	(48,965,865)	(587,079)	(98.80)
SC Transportation Infrastructure Bank	(47,642,207)	0	N/A
Other	<u>(9,546,783)</u>	<u>0</u>	<u>N/A</u>
Total	<u>(106,154,855)</u>	<u>(587,079)</u>	<u>(99.45)</u>
Special Items:			
Transfer of various assets to DMV	(41,059,847)	(11,197,160)	(72.73)
Increase (decrease) in net assets	<u>(53,373,285)</u>	<u>(12,468,096)</u>	<u>(76.64)</u>
Net assets, beginning of year as restated	<u>84,452,930</u>	<u>31,079,645</u>	<u>(63.20)</u>
Net assets, end of year	<u>\$31,079,645</u>	<u>\$18,611,549</u>	<u>(40.12)</u>

Changes in Net Assets

The Department's net assets decreased 40% or \$12.460 million over the prior year. The majority of this decrease is again related to the MOU agreement between DMV and DPS.

Governmental Activities

Governmental activities' revenues were derived from Program Revenues and General Revenues. Program Revenues showed a decrease because last year's revenues included DMV revenues for 11 months. DMV formed its own agency in May of 2003. The General Revenues section experienced a decrease for the year because of additional budget reductions in state appropriations.

Governmental activities' expenses were associated with providing the various services the Department gave to the citizens of the state. Program expenses associated with program revenues was \$125.928million. The major cost excluding depreciation was attributed to Highway Patrol with \$67.193 million. The next highest outflow of funds was \$24.070 million for the Safety and Grants Programs followed by State Transport Police e expenditures of \$8.901 million. .

III. Financial Analysis of the Department's Funds

The Department of Public Safety uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the fund financial statement, the focus is on reporting major funds.

Governmental Funds

The focus on the Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the Department's governmental funds reported a combined ending fund balances of \$17.391 million, which included an unreserved fund balance of \$11.728 million.

The General Fund is the operating fund of the Department. It includes the majority of resources for the Department such as state appropriations, license fees and various types of fines and taxes. It also includes all of the uses of funds, which are categorized by program area. The other financing sources and uses include the remittance back to the State's General Fund, along with the funding for the purchase of the Blythewood building. This year a special item accounting for the separation of DMV from DPS was also included in the reporting structure. The overall decrease in the Department's fund balance was attributable to the separation of DMV from the Department.

IV. Budgetary General Fund Highlights

The Department again experienced significant budgetary cuts during the year. The majority of the decreases continued to occur in the state appropriation areas. The original budget request was \$73 million, excluding the DMV apportionment. The final state appropriation was only \$65 million. This decrease followed several years of 10% decreases. Like the previous couple of years, the Department was able to use special authority the legislature gave to all state agencies to relieve the budget problems. The Department was able to use its restricted funds to cover some of the budget shortfall. For more information on the budget shortages see the discussion in the economic factors section below.

V. Capital Assets and Debt Administration

Capital Assets

At the end of the 2003-2004 accounting year, the Department had \$36,714 million invested in capital assets. This represents a net decrease (including additions and reductions) of \$ 12 million, from the previous accounting year. This reduction represents the final distribution of land and buildings agreed upon in the DMV/DPS MOU.

Long-term Debt

As of the end of the fiscal year in 2004, the Department's most material and significant debt was \$23.448 million in revenue bonds issued in January of 2003. The revenue bonds have a payback period of 15 years. The payment structure requires interest payments the 1st of July and January each year, with a principal payment due the first of each January.

VI. Economic Factors

Continued State Appropriated Budget Decreases

At the beginning of FY 2004 – 2005, the Department saw its state appropriated budget reduced another \$6 million. The Department's beginning base budget was only \$57 million. The effect of this reduction was that the Department has seen its state appropriated budget reduced over \$35 million in the last 4 years.

Additional Revenues and Expenditures

To offset the continued loss in state appropriations funding, the state legislature again has passed new legislation or amended current laws and provisos allowing the Department to increase its earmarked revenues. The Highway Patrol and other law enforcement divisions expected to see over \$6million in new earmarked revenues from the collection of additional license fees and fines.

Blythewood Building Complex

The Department finalized the occupancy situation with the Blythewood complex. DMV finally decided to occupy the other building in the complex. DMV will probably not finish moving out to Blythewood until the second half of the 2004 -2005 fiscal year. The result will mean that DPS will still have the burden of paying for the majority of the building operating costs for the fiscal year.

VII. Requests for Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, and customers with a general overview of the Department's financial situation. Additionally, the Department is required by law to submit audited financial statements yearly to the State. Please address you questions concerning information in this report as follows:

South Carolina Department of Public Safety
Attention: Paul Lewis
Post Office Box 1993
Blythewood, South Carolina 29016

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

Current assets:	
Cash and cash equivalents	\$ 20,392,615
Receivables:	
Federal government	6,574,728
General Fund of the State	3,985,900
State agencies	1,083,468
Other	14,170
Accrued interest receivable	56,510
Inventories	<u>2,040,657</u>
Total current assets	<u>34,148,048</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	1,287,408
Capital assets, net of accumulated depreciation	36,713,949
Other assets:	
Issuance costs for long-term debt, net of accumulated amortization	<u>161,036</u>
Total non-current assets	<u>38,162,393</u>
TOTAL ASSETS	<u><u>\$ 72,310,441</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2004

LIABILITIES AND NET ASSETS

Liabilities:

Current liabilities:

Accounts payable	\$ 6,134,676
Intergovernmental payables:	
Due to State agencies	1,731,612
Contract retainages payable	6,075
Accrued payroll and related liabilities	5,548,854
Accrued interest payable	526,000
Installment purchase agreement payable to State agency	1,337,195
Accrued compensated absences and related benefits	7,000,000
Deferred revenue	4,623,191
	<u>26,907,603</u>
Total current liabilities	<u>26,907,603</u>

Noncurrent liabilities:

Installment purchase agreement payable to State agency, including unamortized premium and net of current portion	23,448,029
Accrued compensated absences and related benefits, net of current portion	3,343,260
	<u>26,791,289</u>
Total noncurrent liabilities	<u>26,791,289</u>

TOTAL LIABILITIES	<u>53,698,892</u>
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Net assets:

Invested in capital assets, net of related debt	11,928,725
Restricted:	
Debt service	675,874
Bond proceeds for capital projects and other purposes	333,747
Unrestricted	5,673,203
	<u>18,611,549</u>

TOTAL NET ASSETS	<u>18,611,549</u>
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TOTAL LIABILITIES AND NET ASSETS	\$ 72,310,441
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See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Public Safety	\$ 125,928,453	\$ 34,622,846	\$ 28,922,263	\$ (105,594)	\$ (62,488,938)
General revenues:					
State appropriations					61,760,627
Donated assets					21,325
Gains on sales of capital assets					23,129
Total general revenues					61,805,081
Transfers and remittances:					
General Fund of the State					(587,079)
Total transfers and remittances					(587,079)
Special item:					
Transfer of 50% interest in land, land improvements and buildings to Department of Motor Vehicles per Memorandum of Understanding					(11,197,160)
Total special item					(11,197,160)
Change in net assets					(12,468,096)
Net assets - beginning, as restated					31,079,645
Net assets - ending					\$ 18,611,549

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2004

ASSETS	<u>General Fund</u>	<u>Federal Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Current assets:				
Cash and cash equivalents	\$ 14,401,169	\$ 3,239,961	\$ 2,751,485	\$ 20,392,615
Receivables:				
Federal government		6,574,728		6,574,728
General Fund of the State	3,985,900			3,985,900
State agencies	1,083,468			1,083,468
Other	14,170			14,170
Accrued interest receivable	9,998	37,113	9,399	56,510
Inventories	2,040,657			2,040,657
Total current assets	<u>21,535,362</u>	<u>9,851,802</u>	<u>2,760,884</u>	<u>34,148,048</u>
Non-current assets:				
Restricted assets:				
Cash and cash equivalents			1,287,408	1,287,408
Total non-current assets			<u>1,287,408</u>	<u>1,287,408</u>
TOTAL ASSETS	<u>\$ 21,535,362</u>	<u>\$ 9,851,802</u>	<u>\$ 4,048,292</u>	<u>\$ 35,435,456</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004

LIABILITIES AND FUND BALANCES	<u>General Fund</u>	<u>Federal Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 2,595,204	\$ 3,374,150	\$ 165,322	\$ 6,134,676
Intergovernmental payables:				
Due to State agencies	273,068	1,458,544		1,731,612
Contract retainages payable			6,075	6,075
Accrued payroll and related liabilities	5,152,937	395,917		5,548,854
Deferred revenue		4,623,191		4,623,191
TOTAL LIABILITIES	<u>8,021,209</u>	<u>9,851,802</u>	<u>171,397</u>	<u>18,044,408</u>
Fund Balances:				
Reserved:				
Debt service			675,874	675,874
Bond proceeds for capital projects and other purposes			333,747	333,747
Inventories	2,040,657			2,040,657
Capital projects			2,613,135	2,613,135
Unreserved	<u>11,473,496</u>		<u>254,139</u>	<u>11,727,635</u>
TOTAL FUND BALANCES	<u>13,514,153</u>		<u>3,876,895</u>	<u>17,391,048</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,535,362</u>	<u>\$ 9,851,802</u>	<u>\$ 4,048,292</u>	<u>\$ 35,435,456</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances - governmental funds		\$ 17,391,048
Amounts reported for governmental activities in the statement of net assets are different because:		
Liabilities that are not due and payable in the current year are not reported in the governmental funds:		
Installment purchase agreement payable to State agency, including unamortized premium	\$ 24,785,224	
Accrued interest payable	526,000	
Accrued compensated absences and related benefits	<u>10,343,260</u>	(35,654,484)
Assets capitalized and depreciated or amortized in the statement of net assets and are charged to expenditures in the governmental funds:		
Capital assets, net of accumulated depreciation	\$ 36,713,949	
Issuance costs for long-term debt, net of accumulated amortization	<u>161,036</u>	<u>36,874,985</u>
Net assets		<u>\$ 18,611,549</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Federal Fund	Capital Projects Fund	Totals
REVENUES:				
State appropriations	\$ 61,760,627	\$ -	\$ -	\$ 61,760,627
Federal grants		29,005,975		29,005,975
Court fines and assessments	13,224,378			13,224,378
Sales of goods and services	1,596,082			1,596,082
Financial responsibility	2,747,203			2,747,203
Vehicle size and weight violation fines	2,058,308			2,058,308
Victim restitution	501,544			501,544
Title fees	6,283,964			6,283,964
Drug confiscation	1,392,623			1,392,623
Motor carrier registrations and fees	1,607,867			1,607,867
Hall of Fame	226,346			226,346
Building fund	4,110,879			4,110,879
Interest/investment income	(2,905)	(83,712)	(105,594)	(192,211)
Other sources	897,880			897,880
TOTAL REVENUES	96,404,796	28,922,263	(105,594)	125,221,465
EXPENDITURES:				
General administration	8,818,590		3,406,892	12,225,482
Bureau of Protective Services	3,493,258			3,493,258
Highway Patrol	65,460,295	1,732,632		67,192,927
Transport Police	6,486,293	2,415,011		8,901,304
Criminal Justice Academy	7,438,845	234,926		7,673,771
Hall of Fame	180,027			180,027
Office of Safety and Grant Programs		24,070,484		24,070,484
Debt service:				
Principal			1,140,000	1,140,000
Interest			1,001,718	
Other:				
Hunley security	113,221			113,221
TOTAL EXPENDITURES	91,990,529	28,453,053	5,548,610	124,990,474
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,414,267	469,210	(5,654,204)	230,991
OTHER FINANCING SOURCES (USES):				
Operating transfers	(3,985,418)	(3,782)	3,989,200	-
Remitted to the General Fund of the State	(121,651)			(121,651)
Indirect cost remitted to the General Fund of the State		(465,428)		(465,428)
Proceeds from sales of capital assets	158,040			158,040
TOTAL OTHER FINANCING SOURCES (USES)	(3,949,029)	(469,210)	3,989,200	(429,039)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	465,238	-	(1,665,004)	(1,199,766)
FUND BALANCES, BEGINNING, as restated	13,048,915	-	5,541,899	18,590,814
FUND BALANCES, ENDING	\$ 13,514,153	\$ -	\$ 3,876,895	\$ 17,391,048

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental funds	\$ (1,199,766)
Special item:	
Transfer of land, land improvements and building to Department of Motor Vehicles pursuant to Memorandum of Understanding	(11,197,160)
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets reported as expenditures in the governmental funds are reported as capital assets in the statement of net assets	3,661,836
Payments on long-term debt reported as expenditures in the governmental funds are reported as a reduction of liabilities in the statement of net assets	1,140,000
Increase in accrued interest payable on long-term debt reported as an expense in the statement of activities is not reported in the governmental funds statement	(67,382)
Depreciation of capital assets is reported as an expense in the statement of activities	(4,697,681)
Amortization of issuance costs is reported as an expense in the statement of activities	(11,929)
Amortization of premium on long-term debt is reported as a reduction of interest expense in the statement of activities	154,316
Increase in accrued compensated absences is reported as an expense in the statement of activities	(82,162)
Costs less accumulated depreciation of capital assets that are disposed of during the year are reported as a reduction of proceeds on sales of capital assets and are reported as gains on sales of capital assets in the statement of activities	<u>(168,168)</u>
INCREASE (DECREASE) IN NET ASSETS	<u><u>\$ (12,468,096)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 272,901</u>
Total assets	<u><u>\$ 272,901</u></u>
LIABILITIES:	
Amounts held for others:	
Seized assets	\$ 267,874
Evidence	500
Dual employment	<u>4,527</u>
Total liabilities	<u><u>\$ 272,901</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The South Carolina Department of Public Safety (the Department) was created by the Government Restructuring Act of 1993, which became effective on July 1, 1993. The cabinet level agency consists of a combination of the former South Carolina Highway Patrol of the former South Carolina Department of Highways & Public Transportation, Public Service Commission Safety Enforcement, Law Enforcement Training Council, Law Enforcement Hall of Fame, and the Public Safety Office of the Governor's Office. The Department is responsible for the statewide law enforcement training, management of various statewide law enforcement agencies, educational efforts for crime, drug and safety programs, as well as administration of certain grants and agency funds directly related to the above mentioned activities. The Executive Director of the Department is a member of the Governor's Cabinet. The Motor Vehicle Division was transferred to the Department of Motor Vehicles effective June 5, 2003.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. An organization other than 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 primary government is the State of South Carolina and the Department is reported as part of the State's primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government entity 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 Department has determined it has no component units.

A primary government or entity is financially accountable if it appoints a voting majority of the 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 a 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 on a primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and results of operations of only that portion of funds of the State of South Carolina that are attributable to the transactions of the Department as defined above and do not include any other funds of the State of South Carolina.

Department-Wide And Fund Financial Statements

The financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Department-Wide Financial Statements:

The Department-wide financial statements are prepared on the accrual basis method of accounting and include a "Statement of Net Assets" which discloses the financial position of the Department; and a "Statement of Activities", which demonstrates the degree to which the direct expenses of the Department's programs are offset by program revenues.

The Department-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Department.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Department uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds

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 (federal funds), and the acquisition, construction, and maintenance of general fixed assets (capital project funds). Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is the fund balance.

General Fund:

The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual State appropriation as approved by the General Assembly, financial responsibility, court fines and assessments, drug confiscations, victim restitution, charges for services and sales of goods. The revenues are used for general ongoing governmental services such as administration, law enforcement, crime prevention training, general public crime education, law enforcement training, and safety program development.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The following Provisos of the 2003-2004 Appropriations Act are specific to the Department which allow it to use, retain and carryover revenues:

- **36.2 Miscellaneous Revenues**

Revenues from the sales of meals to employees, student locks and materials and legal manuals and other publications, postal reimbursements, third party commercial driver license testing, photo copying, sales of miscellaneous refuse and recyclable materials, insurance claim receipts, tuition from military breathalyzer courses, coin operated telephones, fees for E-911 and coroner training, psychological screening, private college tuition, canteen operations and building management services, and regional and national marketing of television series shall be retained and expended in budgeted operations for food services, expansion of the Department's educational television program, professional training, fees and dues, clothing allowances and other related services, or programs as the Director of the Department may deem necessary.

- **36.7 Motor Carrier Registration Fees**

The fees collected were authorized to build and renovate weigh stations. All unexpended funds from prior years collected under this Proviso are authorized to be retained and carried forward by the Department for the same purposes.

- **36.8 Witness Fees**

The Department is authorized to charge witness fees for each Highway Patrol trooper that testifies in civil matters which do not involve the State as a party in interest. This fee shall be charged in addition to any court prescribed payment due as compensation or reimbursement for judicial appearances and deposited into a designated revenue account. The Department is authorized to receive, expend, retain, and carry-forward these funds.

- **36.13 Emergency Expenditure Reimbursements**

The Department is authorized to collect, expend, retain, and carry-forward all funds received from other state or federal agencies in the current fiscal year as reimbursement of expenditures incurred in the current or prior fiscal year when personnel and equipment are mobilized and expenses are incurred due to an emergency.

- **36.14 Private Detective Fees**

The Department is authorized to receive, expend, retain, and carry-forward all funds transmitted from the South Carolina Law Enforcement Division (SLED) related to fees charged and collected by SLED from license and registration fees for private detective businesses, private security businesses and companies which provide private security on their own premises. The funds are to be used in the Bureau of Protective Services Program to provide security for State agencies and the Capitol Complex.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

- **36.19 Retention and Use of SCDOT Settlement**

The Department is authorized to receive, expend, retain, and carry forward all funds received from the South Carolina Department of Transportation from the purchase of the Department interest in the office complex located at 955 Park Street, Columbia, South Carolina. The funds are to be expended for the purchase of cars for use by the Highway Patrol.

- **36.23 DARE (Drug Awareness Resistance Education funds)**

Funds transferred to the Department from the South Carolina Department of Revenue that are related to the DARE income tax return check-off are to be used by the Criminal Justice Academy for the purpose of DARE related training. Unspent funds are to be retained and carried forward into the next fiscal year and used for the same purposes.

Also, the following sections of the South Carolina code of laws, as amended, are specific to the Department which allow it to use, retain and carryover revenues that are earmarked for specific purposes:

- **14-1-206 - General Sessions and Family Court, Magistrate Court and Municipal Court
14-1-208 Assessments**

Sections 14-1-206, 14-1-207, and 14-1-208 of the South Carolina Code of Laws, as amended, effective January 1, 1995, provide that any person who is convicted, pleads guilty or no contest, or forfeits bond for an offense tried in general sessions and family court, magistrate court or municipal court, the fine imposed is an assessment. The Department receives the following specific portions of each of these assessments:

- Section 14-1-206 provides that 16.52% of the general sessions and family court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice and .5 percent is designated to the Department to defray the cost of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame. When funds collected exceed the necessary costs and expenses of operation and maintenance of the Hall of Fame, the Department may retain the surplus for use in its law enforcement training programs.
- Section 14-1-207 provides that 22.49 percent of the magistrate court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice and .65 percent is designated to the Department to defray the cost of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame with the same restrictions as Section 14-1-206.
- Section 14-1-208 provides that 15.07 of the municipal court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice; .39 percent is designated to the Department to defray costs of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame with the same restrictions as Section 14-1-206; and 11.36 percent is designated for the program established pursuant to 56-5-2953(E).

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

- Section 56-5-2953(E) provides that once all breath test sites have been equipped fully with videotaping devices and supplies, 87.5% of the funds received in accordance with Section 14-1-208(C)(9) must be expended by the Department to purchase, maintain, and supply videotaping equipment for vehicles used for traffic enforcement. The remaining 12.5% of the funds received in accordance with this Section must be expended by the South Carolina Law Enforcement Division to purchase, maintain, and supply videotaping equipment for the breath test sites. All test sites were fully equipped in a prior fiscal year.

- **24-3-40 Disposition of Prisoner Wages**

This Section provides that the Director of the South Carolina Department of Corrections shall withhold 5% of the inmate gross wages and promptly deposit these funds with the State Treasurer for credit to a special account to support victim assistance programs established pursuant to the Victims of Crime Act of 1984, Public Law 98-473, Title II, Chapter XIV, Section 1404. Inmate wages remitted to the Department are recorded in "Victim restitution" in the Department's financial statements.

- **44-53-530 Forfeitures, Including Disposition of Proceeds**

This Section of the South Carolina Code of Laws provides that all real or personal property, conveyances and equipment of any value, when reduced to proceeds, any cash more than one thousand dollars, any negotiable instruments, and any securities which are seized and forfeited must be disposed of as follows:

- a) 75% to the law enforcement agency or agencies;
- b) 20% to the prosecuting agency; and,
- c) 5% must be remitted to the State Treasurer's Office and credited to the General Fund of the State.
- d) The first one thousand dollars of any cash seized and forfeited pursuant to this Section remains with and is the property of the law enforcement agency which effected the seizure unless otherwise agreed to by the law enforcement agency and prosecuting agency.

All forfeited monies and proceeds from the sale of forfeited property as defined in this Section must be retained by the governing body of the local law enforcement agency or prosecution agency and deposited in a separate, special account in the name of each appropriate agency. These accounts may be drawn on and used only by the law enforcement agency or prosecution agency for which the account was established. For law enforcement agencies, the accounts must be used for drug enforcement activities and for prosecution agencies, the accounts must be used in matters relating to the prosecution of drug offenses and litigation of drug-related matters. These accounts must not be used to supplant operating funds in the current or future budgets. Expenditures from these accounts for an item that would be a recurring expense must be approved by the governing body before purchase or, in the case of a State law enforcement agency or prosecution agency, approved as provided by law.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

• **44-53-880 Drug Awareness Resistance Education (DARE) Funds**

This Section of the South Carolina Code of Laws established the Drug Awareness Resistance Education (DARE) Fund and Section 12-6-5080 provided for a designation on individual income tax forms to enable taxpayers to contribute to the fund. The purpose of the fund is to promote and encourage the Drug Awareness and Resistance Education program in the State of South Carolina. Also, see prior comments at Proviso number 36.23.

Funds credited to the DARE trust fund, excluding the administrative fees paid to the South Carolina Department of Revenue, are to be used for the following:

- Development and promotion of the DARE Program in this State; and establish a reserve fund in an interest-bearing account with five percent of the funds received by the trust fund annually to be placed in this account. No withdrawals may be made from this account until the minimum balance has reached one hundred thousand dollars and then these funds may be used only in years in which donations do not meet the average normal operating cost incurred by the trust fund and funds are needed to meet expenses. Once the balance in the reserve funds reaches one hundred thousand dollars, excess funds earned by interest and yearly allocations may be used to cover operating costs and to provide additional funds.

• **56-3-362 Identifier Fees**

The Department shall charge a fee of \$5.00 for each identifier. The funds are to be placed in a restricted account and used by the Department for the administration and enforcement of Articles 3 and 5 of Chapter 23 of the South Carolina Code of Laws, as amended and for the building and renovation of weight stations. Unexpended funds from prior years collected under this Section may be retained, carried forward, and used for the same purposes.

• **56-3-840 Delinquent Registrations and License Penalties**

All monies collected pursuant to this Section, not to exceed the actual revenues collected in fiscal year 1999-2000, must be annually deposited to a separate account and held in reserve for the Department. Notwithstanding any other provision of law, these monies must be deposited to the credit of the Department into a special fund in the office of the State Treasurer designated as the "Department of Public Safety Building Fund". The Department must use these monies and other unobligated monies for the purpose of issuing revenue bonds or for entering into a lease purchase agreement for a headquarters facility, including the renovation of existing facilities. All monies credited to the fund that exceed the funds necessary for the purposes authorized in this section must be used for other capital projects throughout the State. The Department is authorized to initiate and direct a capital project to purchase or construct a new headquarters facility. Projects funded under this Section other than for the construction or purchase of a new headquarters facility, including the expansion or renovation of an existing facility, must be approved by a joint resolution provided that if the Department employs a lease purchase agreement to build or purchase a new headquarters facility, the lease purchase agreement must be approved by the Budget and Control Board. The cost of a headquarters facility must not exceed thirty million dollars unless a parking facility or garage is required.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

• **56-5-4160 Size and Weight Fines**

This Section establishes regulations on imposing fines for violations regarding a vehicle's authorized weight including its load and size to operate within the State of South Carolina. Notwithstanding any other provision of law, all fines collected pursuant to this Section must be deposited into an account in the Office of the State Treasurer and called the "Size and Weight Revitalization Program Fund for Permanent Improvements." The Department shall use these monies to establish and maintain automated data bases, to upgrade and refurbish existing weigh stations, to purchase and maintain portable scales, to hire additional other funded troopers or officers, to purchase equipment, and to procure other safety measures that the Department considers necessary. These fines are shown on the financial statements as "vehicle size and weight violation fines". As needed, certain monies from vehicle size and weight violation fines are transferred to the capital projects fund to fund capital projects which involve upgrading and refurbishing existing weigh stations.

• **56-10-552 Uninsured Enforcement Fund**

All funds collected as provided in Section 38-73-470 must be directed to the Department for the establishment and maintenance of a special fund, to be known as the "Uninsured Enforcement Fund" and used by the Department for the purpose of enforcement and administration of Article 3, Chapter 10, Title 56.

• **56-19-420 Certificate of Title Fees**

The Department of Motor Vehicles shall charge fifteen dollars for the issuance of a certificate of title; the transfer of a certificate of title; or the issuance of a duplicate certificate of title. The fees are to be allocated as follows:

- Five dollars of the fee contained in this Section must be placed in a special earmarked account by the Comptroller General and must be distributed in the following manner:
 - The first one million dollars must be allocated to the South Carolina Department of Education and used to support adult education programs.
 - The remainder must be allocated to the Department and used to support highway patrol programs.

Federal Fund:

The federal fund accounts for revenues and expenditures of federal grants that are used for safety, instructional and public education programs.

Capital Projects Fund:

The capital projects fund accounts for construction projects that are to be capitalized and major renovation and repair projects. These projects are currently funded through operating transfers from the general fund primarily from court fines and vehicle size and weight violation fines. The fund balance related to these capital projects is reserved for capital projects.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Department uses agency funds which are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The agency funds used by the Department include the following:

Seized Asset and Evidence Funds:

These funds include confiscated funds held by the Department in an agency capacity until court adjudication.

Dual Employment Fund:

This fund accounts for unexpended funds received by the Department for dual employment.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Department-wide financial statements are reported using the economic resources measurement focus and 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. Revenues 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 revenues to be available if they are collected within one year of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Department, available means expected to be received within one year of the fiscal year-end.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Nonexchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Department must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Budget Policy

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the general fund of the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The total funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

A budget versus actual comparison is not presented as required supplementary information since all revenues and expenditures are not legally budgeted for each of the funds.

Cash and Cash Equivalents

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

Most State agencies, including the Department, 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. For credit risk information pertaining to the State's interest cash management pool including investments held by the pool, see the disclosures for deposits in Note 3.

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 Department records and reports its deposits in the general deposit accounts at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department account at the end of each month and is retained. Interest/investment earnings are allocated based on the percentage of the Departments accumulated daily interest receivable to the total income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition. At year-end, the Department held no short-term investments.

Capital Assets

Capitalized assets include land and improvements; buildings and improvements; vehicles; equipment and furniture; and, other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Capital assets also include assets purchased with Federal funds in which the Federal government retains a reversionary interest.

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gift. Assets contributed by another state agency are recorded at the acquisition cost of that agency. The Department follows capitalization guidelines established by the State of South Carolina. Major additions, renovations, and other improvements which provide new uses, or extend the useful life of an existing capital asset, are capitalized. Routine repairs and maintenance are charged to operations in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. A full year of depreciation is expensed in the year the asset is placed in service and no depreciation is taken in the year of disposition.

A summary of the Department's capitalization and useful life by asset category is as follows:

<u>Asset Category</u>	<u>Capitalization</u>	<u>Useful Life (Years)</u>
Land	All, regardless of cost	
Depreciable land improvements	All, regardless of cost	30 Years
Buildings and improvements	Any costing more than \$100,000	40 Years
Vehicles	Any costing more than \$5,000	3 - 10
Equipment and furniture	Any costing more than \$5,000	3 - 10
Software	Any costing more than \$100,000	3

Receivables

All of the receivables of the Department are reported net of any allowances for uncollectible amounts and any discounts, if applicable. The Department's receivables consist of amounts due from the Federal government, State agencies, local governments, and other entities and individuals. No allowance for uncollectible amounts was provided for based on management's evaluation of the collectibility of the receivable balances at June 30, 2004.

Inventories

The Department maintains inventories of various supplies for its use. All inventories are valued at cost using the weighted average cost method. Expenditures for inventory are accounted for using the consumption method of accounting, in which inventory purchases are recorded as expenses when used.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Interfund Receivables/Payables

Long-term interfund loans are classified as "advance to" or "advance from" particular funds. Short-term amounts are classified as "due to" or "due from" the particular funds. No interest is charged on the advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no advances outstanding as of June 30, 2004.

Installment Purchase Agreement Payable to State Agency; Discounts and Premiums; and, Issuance Costs

The Department reports its installment purchase agreement payable to State agency in the governmental activities in the Department-wide financial statements. The Department defers and amortizes discounts and premiums over the term of the agreement using the outstanding balance method, which results in amortization being computed using the percentage of debt retired to the original amount of the debt instrument. Costs incurred in connection with the origination of the agreement being issued are deferred and amortized on the straight-line method over the life of the related debt instrument. The Department reports the liability net of the applicable unamortized premiums or discounts. Unamortized issuance costs are reported as other non-current assets.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expending of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Department incurred no expenditures in arbitrage costs for the year ended June 30, 2004.

Indirect Cost Recoveries

The receipt of indirect cost recoveries on government-sponsored programs have been included in the special revenue fund as federal grants revenue and payments of these recoveries to the State's General Fund have been recorded as other financing uses. State law requires the Department to remit to the General Fund of the State recoveries from federal grants and awards whose annual award is in excess of \$200,000.

Deferred Revenue

Deferred revenue consists of advance payments of Federal funds which have not been earned. Revenues are recognized in the period in which expenditures from the Federal funds are made.

Compensated Absences

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 maximums of 180 days sick leave and of 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, but are not entitled to any payment for unused sick leave. The compensated

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

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absences liability includes accrued annual leave, compensatory overtime, and holiday leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the Department's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2004. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the Department expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses/expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets are classified and presented in three components:

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.

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.

Reserved Fund Balances – Governmental Funds

The equity section of the governmental funds balance sheet is comprised of two fund balance elements: reserved and unreserved. Reserved balances 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 fund balance that is not appropriate for future discretionary expenditures. All other current resources are shown as unreserved.

Proviso 72.64 of the 2003-04 Appropriations Act allows the Department to use restricted/reserved funds to maintain critical programs previously funded with general fund appropriations. Because of this, the majority of the Department's funds are shown as unrestricted/unreserved.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2. STATE APPROPRIATION:

The Department is granted an annual appropriation for operating purposes as authorized by the General assembly of the State of South Carolina. State appropriations are recognized as revenue when received and made available. Amounts that are not expended by fiscal year-end are required to be returned to the General Fund of the State unless the Department receives authorization from the General Assembly to carry the funds over to the next year.

The following is a reconciliation of the original appropriation as enacted by the General Assembly to State appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2004:

Original Appropriations	\$	90,203,632
Budget Reductions		(710,615)
Transfers to Department of Motor Vehicles per Memorandum of Understanding		(27,077,679)
Payment by Department of Motor Vehicles for salaries and related benefits of employees for the period June 2, 2003 through June 4, 2003 paid in the current year		362,215
Transfer from Department of Education for the operation of the Drug Abuse Assistance Education Program (Proviso 1.50 of the 2003-04 Appropriations Act)		198,000
Revised Appropriations - Legal Basis		62,975,553
Change in Funding for Net Accrual Adjustments		(1,214,926)
State Appropriations Revenue - Accrual Basis	\$	61,760,627

Pursuant to Proviso 72.41 of the 2003-04 Appropriations Act, the Department carried forward \$263,153 of unspent State Appropriation revenue from fiscal year 2004 to fiscal year 2005.

NOTE 3. DEPOSITS:

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		
Cash and cash equivalents:		
Governmental funds		\$21,680,023
Fiduciary funds		272,901
Total		<u>\$21,952,924</u>
 <u>Footnotes</u>		
Deposits held by State Treasurer		<u>\$21,952,924</u>
Total		<u>\$21,952,924</u>

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Deposits Held by State Treasurer

The deposits of the Department held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

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 agents in the State's name. Information pertaining to carrying amounts, fair values and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Cash and cash equivalents reported include unrealized appreciation of \$92,397 for the governmental funds as of June 30, 2004 arising from changes in the fair value. The interest/investment income includes a loss of \$409,031 for the year ended June 30, 2004.

Deposits at fair value at June 30, 2004 held by the State Treasurer include \$347,585 of unexpended funds from the proceeds from the installment purchase agreement which are to be used for projects in progress, \$254,139 in the repair and replacement fund, and \$675,874 for advance funding for debt service.

NOTE 4. INVENTORIES:

The Department's inventories at June 30, 2004 totaled \$2,040,657. These inventories consisted primarily of supplies for the Highway Patrol, including uniforms, guns and accessories and vehicle accessories; office supplies for internal use; and building supplies, including janitorial use.

NOTE 8. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds that are due from the State General Fund for personal services and employer contributions of the Department consisting of salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July, 2004. By State law, these accruals are paid from funds appropriated for the next fiscal year.

NOTE 6. OPERATING TRANSFERS:

Operating transfers of \$3,985,418 were made from the General Fund and \$3,782 from the Federal Fund to the Capital Projects Fund for the funding of capital projects.

NOTE 7. OPERATING LEASES:

The Department has entered into various operating leases for modular buildings, office space, office equipment and motor vehicles. Payments are due on a monthly basis. Ending payment dates on noncancelable operating leases are in various fiscal years 2005 through 2006. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Department is responsible for maintenance on most leased property.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Rental expenditures for all operating leases aggregated approximately \$430,000 for the fiscal year ended June 30, 2004.

The following is a schedule by years of future minimum rental payments as of June 30, 2004 required under the noncancelable operating lease agreements having remaining lease terms in excess of one year:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$46,464
2006	<u>12,144</u>
Total	<u>\$58,608</u>

Rental expenditures of approximately \$76,000 were incurred under contingent lease agreements for copiers.

NOTE 8. CAPITAL ASSETS:

The following schedule summarizes capital assets activity for the Department for the fiscal year 2004:

	Beginning Balances as Restated <u>June 30, 2003</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balances <u>June 30, 2004</u>
Capital assets not being depreciated:				
Land	\$ 1,987,299 (a)		\$ 875,000	\$ 1,112,299
Construction in progress	12,303,017 (h)	2,052,313	11,909,072	2,446,258
Total capital assets not being depreciated	<u>28,300,559</u>	<u>2,052,313</u>	<u>12,784,072</u>	<u>3,558,557</u>
Other capital assets being depreciated:				
Land Improvements	359,163	434,567	396,865	396,865
Buildings and improvements	33,123,838 (b)	11,460,117	10,322,502	34,261,453
Equipment and furniture	8,199,352 (d)(f)	849,665	244,090	8,804,927
Vehicles	32,359,946 (g)	759,858	1,369,111	31,750,693
Total other capital assets	<u>74,042,299</u>	<u>13,504,207</u>	<u>11,935,703</u>	<u>75,213,938</u>
Less accumulated depreciation for				
Land Improvements	8,979	39,687	24,333	24,333
Buildings and improvements	8,132,787 (b)(c)	1,114,599	372,874	8,874,512
Equipment and furniture	5,772,054 (d)(e)(f)	1,104,021	227,221	6,648,854
Vehicles	25,303,673 (g)	2,439,374	1,232,200	26,510,847
Total accumulated depreciation	<u>51,889,888</u>	<u>4,697,681</u>	<u>1,832,295</u>	<u>42,058,546</u>
Other capital assets, net of depreciation	<u>22,152,411</u>	<u>8,806,526</u>	<u>10,103,408</u>	<u>33,155,392</u>
Total capital assets for governmental activities, net	<u>\$ 50,452,970</u>	<u>\$ 10,858,839</u>	<u>\$ 22,887,480</u>	<u>\$ 36,713,949</u>

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
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- (a) Adjusted \$237,299 to correct amount shown as transfer to Department of Motor Vehicles (DMV) in prior year.
- (b) Adjusted cost by \$2,246,675 and accumulated depreciation by \$424,372 to amounts shown as transfer to DMV in prior year.
- (c) Adjusted \$38,902 to agree with supporting schedule.
- (d) Adjusted cost by \$185,515 and accumulated depreciation by \$137,902 to correct amounts shown as transfer to DMV in prior year.
- (e) Adjusted \$112,977 to agree with supporting schedule.
- (f) Adjusted to correct amount of equipment acquired in a prior year with a cost of \$16,500 and accumulated depreciation of \$10,768.
- (g) Adjusted costs by (\$550,754) and accumulated depreciation by (\$298,208) to correct amount shown as transfer to DMV in prior year.
- (h) To adjust amounts included in construction in progress that were not capitalized.

The decreases for land, land improvements and buildings reflect 50% of the costs and accumulated depreciation of the Department's office complex near Blythewood, South Carolina that was transferred to the Department of Motor Vehicles pursuant to a Memorandum of Understanding.

For the fiscal year ended June 30, 2004, the Department expended \$5,459,205 through its capital projects fund excluding payments on debt. \$2,052,313 was expended for projects that meet the Department's capitalization policy.

The Department has obtained the necessary funding for the acquisition, construction, renovation and repair of certain facilities. Management estimates that the Department has sufficient resources available in the capital projects fund and for transfer from the general fund to the capital projects fund to complete the various projects over the next two years. The estimated costs of the projects to be capitalized total approximately \$4,128,000 of which approximately \$1,681,000 was unexpended at June 30, 2004. The projects in progress which will not be capitalized over the next two years have estimated total costs of approximately \$6,428,000 of which approximately \$5,179,000 was unexpended at June 30, 2004.

At June 30, 2004, the Department had commitments of approximately \$293,000 for future expenditures for projects in progress that are to be capitalized and approximately \$96,000 for projects in progress that are not to be capitalized.

NOTE 9. CHANGES IN LONG-TERM OBLIGATIONS:

Long-term liability activity for the year ended June 30, 2004 follows:

	Beginning Balances, As Restated	Increases	Decreases	Ending Balances	Due Within One Year
Installment purchase agreement due to State agency					
Installment purchase agreement	\$ 24,705,000		\$ 1,140,000	\$ 23,565,000	\$ 1,190,000
Unamortized premium	1,374,540		154,316	1,220,224	147,195
Total installment purchase agreement	26,079,540	-	1,294,316	24,785,224	1,337,195
Accrued compensated absences and related benefits	10,324,481	7,010,331	6,991,552	10,343,260	7,000,000
Totals	<u>\$ 36,404,021</u>	<u>\$ 7,010,331</u>	<u>\$ 8,285,868</u>	<u>\$ 35,128,484</u>	<u>\$ 8,337,195</u>

The beginning balance for accrued compensated absences and related benefits was increased \$1,751,086 for related benefits.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10. INSTALLMENT PURCHASE AGREEMENT PAYABLE TO STATE AGENCY:

The Department entered into an installment purchase agreement for \$24,705,000 with the South Carolina Budget and Control Board as of January 1, 2004 to fund the purchase of approximately 52.4 acres of land, two office buildings containing approximately 303,000 square feet, a warehouse containing approximately 38,800 square feet and various personal property located at 10311 Wilson Boulevard, near Blythewood, South Carolina. The South Carolina Budget and Control issued general obligation bonds of a like amount to provide the funds for the above acquisition and the required renovation and equipping for the Department to use as its headquarters. The terms of the installment purchase agreement are the same as those of the bond indenture. All of the proceeds and costs of the bond issue were allocated to the Department for its use.

Details of the installment purchase agreement are as follows:

Issue date	January 14, 2003
Original face amount	\$24,705,000
Maturity date	January 1, 2018
Interest rates	3.00 % - 5.00 %
Balance unpaid, June 30, 2004	\$23,565,000

The following schedule summarizes debt service requirements, including principal and interest, by the Department to maturity:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 1,190,000	\$ 1,052,000	\$ 2,242,000
2006	1,260,000	1,016,300	2,276,300
2007	1,320,000	978,500	2,298,500
2008	1,385,000	938,900	2,323,900
2009	1,470,000	897,350	2,367,350
Five years ending June 30:			
2010 - 14	8,505,000	3,401,600	11,906,600
2015 - 18	<u>8,435,000</u>	<u>1,079,000</u>	<u>9,514,000</u>
Totals	<u>\$ 23,565,000</u>	<u>\$ 9,363,650</u>	<u>\$ 32,928,650</u>

The redemption provision for the bonds issued by the South Carolina Budget and Control Board are as follows:

All Bonds maturing on and after January 1, 2014, shall be subject to redemption, in whole or in part, at any time, in any order of maturity to be determined by the State, on and after January 1, 2013, at the redemption price expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Prices</u>
January 1, 2013, through December 31, 2014	101%
January 1, 2014, and thereafter	100%

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
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NOTE 11. TRANSACTIONS WITH OTHER STATE AGENCIES:

The Department had significant transactions with the State of South Carolina and various State agencies.

The Department paid the South Carolina Department of Corrections approximately \$182,000 for general repairs, printing, production of license plates, the cleaning and maintenance of the ground and buildings, office supplies, office and modular equipment and electricity.

The Department paid the South Carolina Governor's Office-State Law Enforcement Division approximately \$67,000 for data processing, drug testing, telecommunications services, data processing equipment, dues and membership fees and fines.

The Department paid the University of South Carolina approximately \$19,100 for education and training services, research, survey and appraisal services, office supplies, registration fees, legal services and allocations to other State agencies.

The Department paid the Comptroller General approximately \$120,200 for unemployment compensation insurance.

The Department paid the South Carolina Budget and Control Board approximately \$14,037,000 for data processing services and supplies, motor vehicle services, microfilm processing, promotional services, freight and delivery, legal services, general repair, office supplies, motor vehicles, insurance, meals, registration fees, state owned leased cars, renovations for buildings and additions, telephone and telegraph, copying equipment supplies, maintenance and security supplies and services, photographic and audio visual supplies, rental for state owned real property, fees and fines, repairs and renovations for roofing, builders risk insurance, health insurance and dental insurance.

The Department paid South Carolina State University approximately \$19,200 for contractual services.

The Department paid the State Accident Fund approximately \$3,173,420 for worker's compensation insurance.

The Department paid other State agencies approximately \$58,900 for various goods and services.

The Department passed through approximately \$10,743,000 of Federal Funds to various State agencies.

The Department received approximately \$52,000 from the South Commission for the Blind for security services.

The Department received approximately \$223,000 from State Budget and Control Board - Office of Information Resources for security services.

The Department received approximately \$69,000 from the South Carolina Department of Revenue for security services.

The Department received approximately \$151,000 from the South Carolina Department of Education for reimbursement of various expenses.

The Department received approximately \$22,000 from the State Law Department of Motor Vehicles for reimbursement of various expenses.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
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The Department received approximately \$240,000 from the South Carolina Education Lottery Commission for security services.

Due to other State Agencies in the General Fund consists primarily of amounts due to the State Budget and Control Board – Office of Insurance Services for Health and Dental Insurance and the \$1,458,544 payable in the Federal Fund is due for expenditures made under Federal grants prior to June 30, 2004.

\$1,083,467 was due from various State agencies for various services as of June 30, 2004.

Services and benefits received at no cost from the State and various State agencies include use of State-owned lands from the State, maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General, and records storage from the Department of Archives and History.

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

The Department entered into a Memorandum of Understanding dated June 25, 2004 under which 50% of the ownership of the Blythewood Road complex was transferred to the Department of Motor Vehicles (DMV) for no consideration. DMV will occupy one of the buildings and pay 50% of all operating costs except utility bills. DMV will pay 54% of the utility bills.

NOTE 12. CONTINGENCIES/SUBSEQUENT EVENTS:

The various federal programs administered by the Department for the fiscal year 2004 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence that a liability should be recorded as of year-end.

The Department is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including personal injury and negligence. In some cases, the remedies sought or damages claimed are substantial. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for general tort liability is remote, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the Department. Therefore, an estimated liability has not been recorded. The outcome of any litigation has an element of uncertainty.

The Department was sued under a class action lawsuit which alleges that it was in violation of federal fair labor laws regarding the way it calculates certain pay for the Highway Patrol. The Department is vigorously defending against the claim. If all of the Department's legal arguments fail, the Department may have exposure of several million dollars.

NOTE 13. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department 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 DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14. POSTEMPLOYMENT 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 Department are eligible to receive these benefits.

The State provides postemployment 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 these State-funded benefits. Benefits are effective at the date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Department 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. Approximately 26,400 State retirees met these eligibility requirements at June 30, 2004.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$5,681,000 for the year ended June 30, 2004. As discussed in Note 15, the Department paid approximately \$2,875,000 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Department retirees is not available. By State law, the Department 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 and PORS benefits.

NOTE 15. PENSION PLANS:

The majority of the employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan that is administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

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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 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.

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 the 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 10.85 percent which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2004, 2003 and 2002 were approximately \$1,134,000, \$3,332,000, and \$3,139,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$22,500 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 13.60 percent which, as for the SCRS, included the 3.30 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2004, 2003, and 2002 were approximately \$4,281,000, \$4,855,000 and \$4,665,000 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. In addition, the Department paid employer group-life insurance contributions of approximately \$83,000 and accidental death insurance contributions of approximately \$83,000 in the

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

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, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plans is limited to the amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are require at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

Certain of the Departments employees have elected to be covered under optional retirement plans. For the fiscal year, total contributions requirements to the ORP were approximately \$21,800 (excluding the surcharge) from the Commission as employer and approximately \$17,300 from its employees as plan members. 5.7 percent of the total contributions were remitted to the Retirement Division of the Sate Budget and Control Board. Also, the Commission paid employer group life insurance contributions of approximately \$430 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies

NOTE 16. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and 20% coinsurance on real property and its contents. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverages in any of the prior three years. The Department 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 deductible.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. 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 Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment, including data processing equipment;
3. Motor vehicles liability
4. Torts
5. Natural disasters, and
6. Inland marine

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 and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurance but the ISF remains primarily liable. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Department retains the risk of loss on property damage to the vehicles (automobile collision) operated by the Department because it estimates the cost of repairs will be less than the cost of insurance. Expenditures reported by the Department are recorded in the expenditure category for which the vehicle is used to support in the general fund. The liability is included in accounts payable. A summary of the claims activity for the fiscal years ended June 30 2004 and 2003, is as follows:

<u>Fiscal Year Ended</u>	<u>Unpaid Claims, Beginning</u>	<u>Current Year Claims</u>	<u>Claims Paid</u>	<u>Unpaid Claims, Ending</u>
June 30, 2004	<u>\$ 55,000</u>	<u>\$ 344,543</u>	<u>\$353,065</u>	<u>\$ 46,478</u>
June 30, 2003	<u>\$ 11,213</u>	<u>\$ 136,211</u>	<u>\$ 92,688</u>	<u>\$ 55,000</u>

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Employee fidelity and faithful performance bonds are purchased from commercial insurance providers. Every law enforcement officer and trooper is covered by a faithful performance bond of \$2,500 each and other personnel employed by the Department are covered by a fidelity bond of \$50,000. The bond does not cover damage to persons or property arising out of the negligent operation of a motor vehicle. The Department maintains auto liability insurance through the IRF to cover such losses, up to \$600,000 per occurrence. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

In management's opinion, claims losses in excess of insurance coverage for insured risks other than automobile liability are unlikely, and if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded in these financial statements.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the General Fund.

NOTE 17. ACCOUNTING CHANGES/PRIOR PERIOD ADJUSTMENTS:

The Department made corrections of errors in the application of accounting principles regarding the recording of certain assets and liabilities. Corrections were also made to correct the amount of assets shown as transferred to the Department of Motor Vehicles in the prior year.

The effect of the accounting and reporting changes on beginning balances in the accompanying financial statements is as follows:

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

	Department Wide/ Net Assets	Governmental Funds			Total
		General Fund	Federal Fund	Capital Projects Fund	
Balances, June 30, 2003, as previously reported	\$ 32,007,522	\$ 12,405,735		\$ 6,150,209	\$ 18,555,944
Correction of errors:					
To record additional funds transferred to Department of Motor Vehicles (DMV) in prior year	(574,775)	33,535		(608,310)	(574,775)
To reclassify Agency Fund assets included in General Fund in prior year	(317,511)	(317,511)			(317,511)
To record Agency Funds in prior year that were shown as a transfer to DMV that should have been recorded in General Fund	934,410	934,410			934,410
To adjust accrued payroll and related liabilities	1,071,783	1,059,128	12,655		1,071,783
To adjust Federal government receivables	(12,655)		(12,655)		(12,655)
To adjust amount due from General Fund of the State	(1,006,782)	(1,006,782)			(1,006,782)
To adjust accounts receivable	(64,998)	(64,998)			(64,998)
To adjust due to General Fund of the State	60,398	60,398			60,398
To adjust accounts payable	(55,000)	(55,000)			(55,000)
To record additional capital assets transferred to DMV	(252,546)				
To adjust amount of capital assets transferred to DMV	2,107,215				
To record additional capital assets	5,732				
To adjust beginning accumulated depreciation to detailed schedules	(151,879)				
To adjust construction in progress for items included that were not capitalized	(920,183)				
To adjust accrued compensated absences and related benefits	(1,751,086)				
Balances, June 30, 2003, as restated	<u>\$ 31,079,645</u>	<u>\$ 13,048,915</u>	<u>\$ -</u>	<u>\$ 5,541,899</u>	<u>\$ 18,590,814</u>

The prior year's report reported \$13,691,009 as restricted on the Statement of Net Assets and the same amount as reserved on the Balance Sheet – Governmental Funds. Based on Proviso 72.69 in the 2002-03 Appropriations Act, the Department was authorized to spend these funds to maintain critical programs previously funded with general fund appropriations. Because of this Proviso, these balances should have been reported as unrestricted and unreserved.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**COMBINING STATEMENT OF CHANGED IN ASSETS AND LIABILITIES-
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2004**

	Balances, July 1, 2003 As Restated	Additions	Deductions	Balances, June 30, 2004
SEIZED ASSETS (A)				
ASSETS:				
Cash and cash equivalents	<u>\$ 317,511</u>	<u>\$ 14,486</u>	<u>\$ 64,123</u>	<u>\$ 267,874</u>
LIABILITIES:				
Amounts held for others	<u>\$ 317,511</u>	<u>\$ 14,486</u>	<u>\$ 64,123</u>	<u>\$ 267,874</u>
EVIDENCE				
ASSETS:				
Cash and cash equivalents	<u>\$ 500</u>	<u>0</u>	<u>0</u>	<u>\$ 500</u>
LIABILITIES:				
Amounts held for others	<u>\$ 500</u>	<u>0</u>	<u>0</u>	<u>\$ 500</u>
DUAL EMPLOYMENT				
ASSETS:				
Cash and cash equivalents	<u>\$ 4,914</u>	<u></u>	<u>\$ 387</u>	<u>\$ 4,527</u>
LIABILITIES:				
Amounts held for others	<u>\$ 4,914</u>	<u></u>	<u>\$ 387</u>	<u>\$ 4,527</u>
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash and cash equivalents	<u>\$ 322,925</u>	<u>\$ 14,486</u>	<u>\$ 64,510</u>	<u>\$ 272,901</u>
LIABILITIES:				
Amounts held for others	<u>\$ 322,925</u>	<u>\$ 14,486</u>	<u>\$ 64,510</u>	<u>\$ 272,901</u>

(A) The Seized Asset fund was incorrectly reported as part of the General Fund in the prior year.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
U.S. Department of Justice			
Direct Programs:			
Juvenile Accountability Incentive Block Grants	16.523	\$ 2,592,096	\$ 2,497,721
Juvenile Justice and Delinquency Prevention			
- Allocation to States	16.540	647,217	490,193
Title V - Delinquency Prevention Program	16.548	429,848	429,848
Part E - State Challenge Activities	16.549	88,952	88,952
State Justice Statistics Program for Statistical			
Analysis Centers	16.550	41,481	
National Institute of Justice Research, Evaluation,			
and Development Project Grants	16.560	46,119	46,119
Crime Victim Assistance	16.575	5,122,997	4,894,985
Byrne Formula Grant Program	16.579	7,611,687	7,119,130
Violence Against Women Formula Grants	16.588	1,968,556	1,867,909
Local Law Enforcement Block Grants Program	16.592	397,351	388,152
Residential Substance Abuse Treatment for State Prisoners	16.593	1,094,037	1,086,872
Community Prosecution and Project Safe Neighborhoods	16.609	334,610	272,138
Public Safety Partnership and Community Policing Grants	16.710	947,345	
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>21,322,296</u>	<u>19,182,019</u>
U.S. Department of Transportation			
Direct Programs:			
National Motor Carrier Safety	20.218	2,424,501	
State and Community Highway Safety	20.600	8,553,615	6,536,835
Federal Highway Safety Data Improvements			
Incentive Grants	20.603	202,970	
Safety Incentive Grants for Use of Seatbelts	20.604	867,484	19,934
Safety Incentives to Prevent Operation of Motor			
Vehicles by Intoxicated Persons	20.605	66,363	
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>12,114,933</u>	<u>6,556,769</u>
U.S. Department of Energy			
Direct Programs:			
Transport of Transuranic Wastes to the Waste Isolation Pilot			
Plant: States and Tribal Concerns, Proposed Solutions	81.106	70,686	
U.S. Department of Homeland Security			
Indirect Programs:			
Passed Through SC Law Enforcement Division			
State Domestic Preparedness Equipment Support Program	97.004	400,170	
TOTAL FEDERAL ASSISTANCE		<u>\$ 33,908,085</u>	<u>\$ 25,738,788</u>

The Schedule of Expenditures of Federal Awards has been prepared on the cash basis method 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.



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 2004, and have issued our report thereon dated June 7, 2005. 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 Department'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 04-2.

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. Our consideration of the internal control over financial reporting 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 the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs as items 04-1 through 04-3 are material weaknesses.

We also noted other matters involving the internal control over financial reporting which are described as Other Management Letter Comments and are identified as items 04-4 through 04-6.

Compliance and Other Matters

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



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

Rogers + Lalan, PA

June 7, 2005



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**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 South Carolina Department of Public Safety (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance 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 Department's 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 Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Department 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 Department'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 applicable requirements of laws, regulations, contracts and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.



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Rogers & Lalan, PA

June 7, 2005

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITOR'S RESULTS

Financial statements:

1. An unqualified opinion dated June 7, 2005 on the financial statements of the Department for the year ended June 30, 2004 was issued.
2. Reportable conditions relating to the internal control over financial reporting were noted during our audit of the financial statements. These conditions are reported as material weaknesses.
3. No instances of noncompliance which were material to the financial statements were disclosed during the audit.

Federal Awards:

4. No reportable conditions in internal control over major programs were noted.
5. An unqualified opinion on compliance for the major program dated June 7, 2005 was issued.
6. There were no findings disclosed during the audit that are required to be reported under Section .510(a) of OMB Circular A-133.
7. The major programs of the Department were as follows:

<u>Program</u>	<u>CFDA #</u>
Highway Safety Cluster:	
State and Community Highway Safety	20.600
Federal Highway Safety Data	
Improvements Incentive Grants	20.603
Safety Incentive Grants for Use of Seatbelts	20.604
Safety Incentives to Prevent Operation	
of Motor Vehicles by Intoxicated Persons	20.605
National Motor Carrier Safety	20.218
Crime Victim Assistance	16.575
Byrne Formula Grant Program	16.579
Community Prosecution and Project Safe	
Neighborhoods	16.609
State Domestic Preparedness Equipment	
Support Program	97.004

8. The dollar threshold used to distinguish between Type A and Type B programs was \$1,017,243.
9. The Auditee was not determined to be a low risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The following reportable conditions are material weaknesses, are related to the Department's financial statements and are required to be reported in accordance with generally accepted government auditing standards.

04-1 ACCOUNTS PAYABLE DEFICIENCIES

Condition: Our tests for unrecorded payables disclosed a voucher for \$108,300 was omitted from the year-end closing package. The same finding was cited in the prior year's management letter.

Cause: The Department's staff did not identify and accurately record accounts payable as of year-end.

Effect: The failure to properly record all accounts payable as of year-end results in an understatement of liabilities and expenses/expenditures in the Department's financial statements.

Criteria: Good accounting practices require the correct recording all accounts payable as of each year end.

Recommendations: We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable are recorded.

04-2 DEFICIENCIES IN COMPENSATED ABSENCES REPORTING

Condition: For two employees tested, the ending balance shown for holiday compensatory time off did not equal the total of the beginning balance plus the balance earned, less the balance used. The ending balances appeared to be correct. Two other instances were noted where the system showed that holiday compensatory time off had been forfeited, but the Department produced evidence that the leave had been taken. Other problems were also noted in the accounting for holiday compensatory time.

We also noted an instance where annual leave taken by an employee on July 1, 2004 and July 2, 2004 was keyed into the system as having been taken as of June 30, 2004 understating the leave liability balance as of June 30, 2004.

The schedule prepared by the Department to calculate the amount of leave used during the year included approximately 300,000 hours for all of the Department of Motor Vehicles employees which caused the amount of annual leave used during the year to be overstated by approximately \$6.5 million.

Cause: Programming problems with holiday leave report and human error.

Effect: Report used to calculate and report compensated leave balances could be incorrect and the amount of leave used during the year was incorrect

Criteria: Good accounting practices and procedures that all reports be correct and that leave be shown as used in the actual period taken.

Recommendations: We recommend that the Department review its system for capturing and reporting compensated absence information. All reports should be reviewed for reasonableness.

04-3 ERRORS IN CAPITAL ASSET CLOSING PACKAGE

Condition: Our testing of the capital asset closing package and supporting documentation found the following deficiencies:

- a. The Department included a capital project with a cost of approximately \$14,400 in construction in progress even though the project had been abandoned.
- b. The Department is not adjusting the balances as of the beginning of the year to reflect audit adjustments that were made for the prior year.

- c. The Department recorded a piece of equipment acquired in a prior year with a cost of approximately \$10,800 that had been removed in a prior year as a prior period adjustment but started depreciating it over again even though it had already been fully depreciated.
- d. The Department recorded a confiscated vehicle that it received during the current year as a prior period adjustment instead of a current year addition.

Cause: Lack of understanding on proper way to prepare closing package and failure to carefully review all items included on schedules supporting the closing package.

Effect: Amounts shown on closing package for prior and current activity and ending balances are incorrect.

Criteria: Good accounting practices and procedures and the instructions for the preparation of the closing package contained in the Comptroller General's GAAP Closing Package Manual.

Recommendations: We recommend that additional care be taken in the preparation of the closing package and that the beginning balances be adjusted for any prior audit adjustments.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There are no findings required to be reported in accordance with Circular A-133.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2004

Other management letter comments include the following:

04-4 PROCUREMENT CARD DOCUMENTATION

Condition: Our tests of disbursements by use of the procurement card disclosed that adequate documentation is not being obtained to determine that these type expenditures as bona fide expenditures of the Department and all made by authorized cardholders. The same finding was cited in the prior year.

Cause: Procedures for the use of the procurement card are not being adhered to.

Effect: Unauthorized expenditures could be charged to the Department's operating budget.

Criteria: Good accounting practices and procedures require the Department to review and approve all procurement card expenditures to ensure they are bona fide expenditures of the Department and are only being made by authorized personnel.

Recommendations: We recommend that the review and approval process be followed to ensure adequate documentation is on file to support procurement card expenditures and those expenditures are made only by authorized personnel.

04-5 ERROR IN CAPITAL ASSET REPORTS

Condition: The capital asset report submitted to us by the Department included the incorrect acquisition dates for some of the assets. After bringing this to the Department's attention, a corrected report was provided to us.

Cause: Failure to adequately review all documents.

Effect: Inaccurate reports to support the Department's capital assets.

Criteria: Good accounting practices and procedures require that all reports be correct.

Recommendations: We recommend that the Department carefully review all reports to ensure their accuracy.

04-6 ERROR IN CONSTRUCTION IN PROGRESS AND RETAINAGE PAYABLE AMOUNTS

Condition: Our audit disclosed that the Department did not include \$2,325 of retainages payable as part of their construction in progress schedule or as part of the retainage payable liability.

Cause: Unknown

Effect: Construction in progress and retainage payable accounts are understated.

Criteria: Good accounting practices and procedures require that all liabilities be recorded along with their effect on other accounts.

Recommendations: We recommend that the Department ensure that all schedules are updated to reflect all liabilities existing as of fiscal year-end.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**STATUS OF PRIOR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

During our current audit, we reviewed the status of corrective action taken on the findings and questioned costs and other management letter comments reported in our report on the financial statements of the Department dated March 31, 2004, resulting from the audit of the financial statements for the year ended June 30, 2003. We found that adequate corrective action has been taken for the following:

Findings related to financial statements:

03-1 Grant receivable / deferred revenue

Findings and questioned costs for federal awards

03-3 Public Safety Partnership and Community Policing Grants - CFDA # 16.710

Other management letter comments:

03-5 Receipt documentation not located

Findings regarding accounts payable and procurement card documentation are repeated in this year's report.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

- 03-3 We concurred with last year's audit for the need to accurately report all Federal Financial Reports. We met with the personnel responsible for these grants and trained them on the weakness discovered in the 2003 audit. We believe these actions have enabled us to better manage these programs.

CORRECTIVE ACTION PLAN

APPENDIX A

Corrective Action Plan
Appendix A

Findings related to the Financial Statements

- 04-1 We agree with the need to accurately determine year-end payable balances and expenditure amounts. We reviewed the discrepancy issues with our Accounts Payable Manager, and our Grants Accounting Manager. We showed them the vouchers that were not properly accounted for at year-end. Both areas will attempt to more closely monitor the cut-off procedures this coming year to try to ensure a more accurate year-end accounting of Grants expenditures.
- 04-2 We agree with the need to more accurately calculate the Agency's Compensated Absences balance. We have met with the Information Technology Office and discussed the problem with the computer calculations and believe the situation is now corrected. We also met the Office of Human Resources and discussed with them the need to more accurately enter each individual's transactions. At this time we believe that these issues are corrected.
- 04-3 We concur with the need to accurately report the correct values on the Capital Asset Closing Package. The Office of Financial Services (OFS) has met to specifically address various problems related to capital projects situations. It was decided that additional lines of communication were needed. The OFS area will now meet every other month to review the status of all of the agency's capital projects.

Name of Contact Person: Paul Lewis, Manager of Financial Information

Date: June 29, 2005

**MANAGEMENT'S RESPONSE TO THE
OTHER MANAGEMENT LETTER COMMENTS**

APPENDIX B

Management's response to the Other Management Letter Comments
Appendix B

- 04-4 We agreed with the need for adequate documentation backup for procurement card expenditures and for allowing only authorized personnel to use procurement cards. We have reviewed these issues with our Procurement Manager, the direct manager responsible for the procurement card program. He plans to follow up with Liaison Coordinator and the cardholders.
- 04-5 We agreed with the need to maintain adequate and correct documentation as proper support for all transactions. The General Accounting area has reviewed this situation with the Resource Management area; the department directly responsible for capital assets. The two will attempt to more closely review transactions for the correct dates.
- 04-6 As stated in response 04-3, the financial services area has set up a meeting every two months to review all capital projects. These meeting will address the construction progress of all projects which should lead to more accurate end of the year reporting.

Name of Contact Person: Paul Lewis, Manager of Financial Information

Date: June 29, 2005