

**SOUTH CAROLINA DEPARTMENT OF COMMERCE  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

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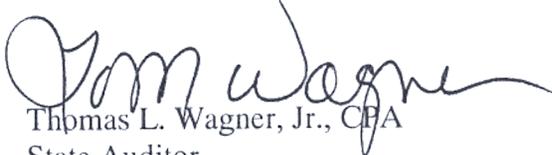
March 22, 2003

The Honorable Mark Sanford, Governor  
and  
Mr. Robert Faith, Secretary  
South Carolina Department of Commerce  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce for the fiscal year ended June 30, 2003, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

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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 Commerce (the "Department") as of and for the year ended June 30, 2003, 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.

Except as discussed in the following paragraph, 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.

The financial statements referred to above do not include the Department's enterprise funds, which are comprised of the Division of Public Railways and Division of Savannah Valley Development, which should be included in order to conform with accounting principles generally accepted in the United States of America. The omitted funds have assets, liabilities, revenues, and expenses as follows as of and for the years ended:

	December 31, 2002 Public Railways	June 30, 2003 Savannah Valley
Assets	\$ 34,932,829	\$ 20,183,325
Liabilities	1,485,126	16,074,858
Revenues	8,618,561	1,417,098
Expenses and Transfers	8,094,266	1,283,106

As described in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Department, excluding its enterprise funds noted in the above paragraph. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2003, 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, except for the effect on the financial statements of the omissions described in the third paragraph, 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 South Carolina Department of Commerce as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic 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 required 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2004 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Roger J. Lalor, PA*

February 6, 2004

## **SOUTH CAROLINA DEPARTMENT OF COMMERCE MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the South Carolina Department of Commerce (“the Department”), we provide this *Management's Discussion and Analysis* of the South Carolina Department of Commerce's Financial Statements for the fiscal year ended June 30, 2003 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Department's financial statements, which follow.

A requirement of the *Management's Discussion and Analysis* is that it should discuss the current year results in comparison with prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year.

This report consists of a series of financial statements, prepared in accordance with the Governmental Standards Board in Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. These financial statements differ significantly, in both the form and accounting principles utilized, from prior financial statements presented.

The Financial Statements and the *Management's Discussion and Analysis* do not include the Public Railways Division of the Savannah Valley Development Division of the Department of Commerce as these activities are covered by separate audit reports.

### **FINANCIAL HIGHLIGHTS**

#### **Department-Wide**

**Net Assets** – The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2003 by \$82 million (presented as “net assets”). Of this amount there was a deficit of \$5.9 million was reported as “unrestricted net assets”. Unrestricted net assets represent the amount to be used to meet the Department's ongoing obligations to citizens and creditors.

**Changes in Net Assets** – The Department's total net assets decreased by \$31 million (a 38% decrease) in fiscal year 2003. The decrease is attributed to a decrease in Water and Wastewater Grants due to the majority of these grants being expensed in FY2002-2003.

### **DEPARTMENT-WIDE FINANCIAL ANALYSIS**

#### **Net Assets**

The Statement of Net Assets presents information reflecting the Department's assets, liabilities and net assets as of the end of the fiscal year. This statement provides the reader with a fiscal snapshot of the Department. The Statement of Net Assets presents

end of year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). Current assets and liabilities are those with immediate liquidity or which are collectible or due within twelve months of the statement date. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2003 by \$82 million. The Department reported \$5.9 million as a deficit in unrestricted net assets. Unrestricted net assets generally represent the amount available to be used to meet the Department's ongoing obligations.

**Condensed Statement of Net Assets  
Comparison June 30, 2002 and June 30, 2003**

	June 30, 2002	June 30, 2003
<b>ASSETS</b>		
Current assets	\$ 8,090,230	\$ 18,040,930
Restricted cash and investments	107,931,074	76,865,225
Capital Assets, net of related depreciation	<u>7,065,718</u>	<u>6,221,339</u>
Total Assets	<u>\$123,087,022</u>	<u>\$101,127,494</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 9,412,117	\$ 13,125,095
Long-term liabilities	<u>365,035</u>	<u>5,983,174</u>
Total liabilities	<u>\$ 9,777,152</u>	<u>\$ 19,108,269</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 7,065,718	\$ 6,221,339
Restricted	110,680,911	81,708,978
Unrestricted (deficit)	<u>(4,436,759)</u>	<u>(5,911,092)</u>
Total net assets	<u>\$113,309,870</u>	<u>\$ 82,019,225</u>
Total liabilities and net assets	<u>\$123,087,022</u>	<u>\$101,127,494</u>

The year ended June 30, 2002 had a reported \$4.4 million deficit in unrestricted net assets with the year ended June 30, 2003 having a reported \$5.9 million deficit in unrestricted net assets. These deficits were attributable to a \$3.0 million note for Spartanburg Renaissance Project in Fiscal Year 2003 and in Fiscal Year 2002 there was a \$3.5 million note to Spartanburg Renaissance and other account payables and annual leave accruals.

The Department has various airport and economic development projects. The outstanding commitments for the Department as of June 30, 2003 as compared to June 20, 2002 are as follows:

### Outstanding Commitments

	June 30, 2002	June 30, 2003
Water and Wastewater Infrastructure Grants	\$ 79,613,220	\$ 45,387,899
State Rural Infrastructure	3,535,958	2,486,955
Community Development Block Grants	9,936,562	16,637,227
State Economic Dev Program (Hwy Set Aside)	20,730,685	21,373,274
Capital Improvement Bond Funds	291,281	513,627
Aviation Fuel Tax (Earmarked Funds)	712,167	323,686
State Aviation Fund (State Funds)	308,988	453,563
Spartanburg Renaissance (Earmarked Funds)	3,000,000	
Hartsville Airport (Supplemental State Funds)	50,000	
Sumter County Airport (Earmarked Funds)	100,000	
Union County Airport (Earmarked Funds)	<u>48,476</u>	<u>12,757</u>
 Total Commitments	 <u>\$118,327,337</u>	 <u>\$ 87,188,988</u>

### Changes in Net Assets

This statement represents the program revenues and expenses, as well as any general revenue that the agency receives. The purpose of this statement is to present the reader with information relating to revenues received and expenses incurred during the fiscal year.

Program revenues for the Department are classified in two categories; Charges for Services, Operating Grants and Contributions. Charges for services are received for providing services to the various customers and constituencies of the agency. Operating grants are primarily made up of grants from various activities that are mandated legislatively, for which there are no appropriated funds to carry out the activities.

Because many of the individual grants are for projects that take several years to complete, the timing of the expenses in any given year can greatly affect the agency's cash flow. This accounts for substantially all of the decrease in net assets.

General revenues are revenues received for which services are not provided. State appropriations are considered general revenue because they are provided by the State without directly receiving commensurate services. The other items of general revenue included investment income and contributions from such funds as the State Admissions Tax, State Rural Infrastructure Fund, State Aviation fund and State Economic Development Gasoline Tax made available to the agency. Total general revenue for the agency was \$32.2 million in fiscal year 2003 as compared to \$42.3 in fiscal year 2002.

This is a decrease of \$10.1 million, which is primarily attributable to a decrease in capital improvement bond revenue of \$10.0 million

Expenses for the agency are shown under the category of Economic Development and are classified as personal services; other operating costs, including grants; and interest and depreciation. Personal service costs were \$9.1 million (8.4%) for the fiscal year 2003 as compared to \$9.9 (9.9%) for fiscal year 2002. Other operating costs, including grants totaling \$98.5 (90.9%) million for fiscal year 2003 as compared to \$89.3 million (89.3%) for fiscal year 2002. Interest costs and depreciation expense totaled \$.7 million (.1%) for fiscal year 2003 as compared to \$.6 (.6%) million for fiscal year 2002.

**Statement of Activities  
Comparison June 30, 2002 and June 30, 2003**

	June 30, 2002	June 30, 2003
<b>Revenues:</b>		
<b>Program Revenues</b>		
Charges for Services	\$ 2,076,848	\$ 765,691
Operating Grants and Contributions	42,274,181	44,355,458
<b>General Revenues</b>		
State Appropriation	12,923,278	12,783,206
State Capital Improvements Bond	10,234,872	290,836
State Economic Development Programs	19,000,950	19,052,730
Contributions and Other	104,000	41,762
Less Amounts Transferred to State General Fund	<u>(1,045,589)</u>	<u>(611,277)</u>
Total Revenues	<u>\$85,568,620</u>	<u>\$76,678,406</u>
 <b>Expenses:</b>		
Economic Development	<u>\$99,788,198</u>	<u>\$107,969,051</u>
Increase (decrease) in Net Assets	(\$14,219,578)	(\$31,290,645)
Net Assets, Beginning of Year	<u>\$127,529,448</u>	<u>\$113,309,870</u>
Net Assets, End of Year	<u>\$113,309,870</u>	<u>\$ 82,019,225</u>

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S INDIVIDUAL FUNDS**

**Governmental Funds**

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As of the end of the current fiscal year, the Department's governmental funds reported ending fund balances of \$83.2

million, a decrease of \$27.6 million in comparison with the prior year. 3% of these total fund balances or \$864,036 constitute unreserved fund balances, which are available for spending in the coming year. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed. The Department's fund balance in governmental funds decrease can be attributable to the 1) Water and Wastewater Infrastructure Fund expenditures exceeding the revenue by \$33.2 million and 2) State Rural Infrastructure revenue exceeding the expenditures by \$4.8 million.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Department's Capital Assets net of depreciation were \$6.2 million at June 30, 2003. This was a decrease of \$844,379. The Department changed its method of computing depreciation on certain vehicles by eliminating the vehicle's salvage values. This increased current year's depreciation expense by approximately \$177,000. The investment in capital assets includes aircraft and leasehold improvements, as well as computer and presentation systems.

#### **Capital Assets Comparison June 30, 2002 and June 30, 2003**

	June 30, 2002	June 30, 2003
Building Improvements	\$ 4,035,982	\$ 4,035,982
Furniture, Fixtures and Equipment	1,497,922	1,342,648
Aircraft and Vehicles	<u>4,699,631</u>	<u>4,699,631</u>
<b>Total Cost</b>	<b>\$10,203,535</b>	<b>\$10,048,261</b>
Less Accumulated Depreciation	<u>3,137,817</u>	<u>3 826 922</u>
<b>Net Capital Assets</b>	<b><u>\$ 7,065,718</u></b>	<b><u>\$ 6,221,339</u></b>

\*The Department's buildings are located on long term-leased land at Columbia Metropolitan Airport. The Department owns no land.

### **Debt Administration**

The Department did incur new debt during the fiscal year 2003 and did satisfy some debt from fiscal year 2002. A note for computer equipment, was paid off in fiscal year 2003. This note was satisfied in 2003 and no further payable is reported. A new note for \$3 million, with a maturity of July 2, 2004, is being repaid in four equal installments of \$750,000 beginning in July, 2003. A third note of \$3.5 million received in fiscal year 2002 was originally due in March 2003. This note was delayed until fiscal year 2004-

2005 for repayment by a proviso in the Appropriations Act for fiscal year 2003-2004. Both of these notes were for the Spartanburg Renaissance Project.

### **Economic Outlook**

Downturns in the U.S. economy that began in March 2001 had a similar impact on the State of South Carolina's general fund revenue sources. As a result, the Department has undergone midyear and base budgets reductions to our State Appropriated funds. Even with these reductions during the fiscal year, the Department carried out its mission and managed these shortfalls through attrition and reduced workloads. The Department has also restructured and had a reduction in force to help attain the funding levels that we currently have. The Department has streamlined most of its processes and look for accountability in all aspects of our mission.

In Fiscal Year 2003-2004 the Department has taken a mid year reduction of 1% which is \$110,000. The Department is not anticipating further reductions in Fiscal Year 2003-2004. The Department has worked to absorb this cut as well as future cuts by restructuring.

### **Request for Information**

This financial report is designed to provide a general overview of the Department of Commerce finances for all of the Department's taxpayers, customers and creditors. This financial report seeks to demonstrate the Department's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Commerce  
Director of Finance  
1201 Main Street, Suite 1600  
Columbia, South Carolina 29201

SOUTH CAROLINA DEPARTMENT OF COMMERCE

STATEMENT OF NET ASSETS

JUNE 30, 2003

ASSETS	Governmental Activities
<b>Current assets:</b>	
Cash and cash equivalents	\$ 7,869,129
Investments	3,287,445
Accrued interest receivable	21,209
Accounts receivable	34,116
<b>Intergovernmental receivables:</b>	
Federal government	1,265,184
General Fund of the State	569,448
State agencies	4,862,233
State capital improvement bonds	116,794
Inventories	15,372
<b>Total current assets</b>	<b>18,040,930</b>
<b>Noncurrent assets:</b>	
Restricted cash and cash equivalents	30,845,064
Restricted investments	46,020,161
<b>Capital assets</b>	<b>6,221,339</b>
<b>Total assets</b>	<b>\$ 101,127,494</b>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 10,500,642
Accrued salaries and related benefits	712,985
Accrued interest payable	35,000
Due to General Fund of the State - lapsed appropriations	501,068
Deferred revenue	24,400
Current portion of notes payable	750,000
Current portion of accrued compensated absences and related benefits	601,000
<b>Total current liabilities</b>	<b>13,125,095</b>
<b>Noncurrent liabilities:</b>	
Notes payable, net of current portion	5,750,000
Accrued compensated absences and related benefits, net of current portion	233,174
<b>Total noncurrent liabilities</b>	<b>5,983,174</b>
<b>Total liabilities</b>	<b>19,108,269</b>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	6,221,339
<b>Restricted for:</b>	
Water and wastewater infrastructure grants and administrative costs	46,041,390
State economic development projects	18,583,072
Admission tax projects	1,730,382
Aviation fuel tax projects	1,422,891
State rural infrastructure fund training and projects	9,566,284
State General Fund appropriations	3,043,496
General fund restricted purpose funds	1,321,463
Unrestricted (deficit)	(5,911,092)
<b>Total net assets</b>	<b>82,019,225</b>
<b>Total liabilities and net assets</b>	<b>\$ 101,127,494</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

	Governmental Activities
Expenses:	
Economic development:	
Personal services	\$ 9,192,299
Other operating costs, including grants	98,005,836
Interest expense	6,341
Depreciation	764,575
Total program expenses	107,969,051
Program revenues:	
Charges for services	765,691
Operating grants and contributions	44,355,458
Net program expenses	62,847,902
General revenues:	
State appropriations	12,783,206
State capital improvement bond revenue	290,836
State admissions tax	1,052,730
State economic development gasoline tax	18,000,000
Sale of surplus noncapitalized equipment	1,955
Contributions	39,807
Total general revenues	32,168,534
Transfers:	
Transfers to General Fund of the State	(11,448)
Indirect costs remitted to General Fund of the State	(98,761)
Lapsed appropriations to General Fund of the State	(501,068)
Total transfers	(611,277)
Increase (decrease) in net assets	(31,290,645)
Net assets - beginning of year, as restated	113,309,870
Net assets - end of year	\$ 82,019,225

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2003**

<b>ASSETS</b>	<u>General</u>	<u>Federal</u>	<u>Water and Wastewater Infrastructure</u>	<u>State Economic Development</u>	<u>State Rural Infrastructure</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,393,080	\$ 33,492	\$ 3,271,203	\$ 1,449,494	\$ 262,954	\$ 458,906	\$ 7,869,129
Cash and cash equivalents - restricted	4,364,959			18,583,072	5,088,961	2,808,072	30,845,064
Investments			3,287,445				3,287,445
Investments - restricted			46,020,161				46,020,161
Accrued interest receivable			21,209				21,209
Accounts receivable	32,931	1,185					34,116
Due from other State agencies	37,399	2,290	20		4,447,061	375,463	4,862,233
Due from General Fund of the State	569,448						569,448
Due from Federal government		1,265,183					1,265,183
State capital improvement bonds receivable	116,794						116,794
Inventories	15,372						15,372
<b>Total assets</b>	<b><u>\$ 7,529,983</u></b>	<b><u>\$ 1,302,150</u></b>	<b><u>\$ 52,600,038</u></b>	<b><u>\$ 20,032,566</u></b>	<b><u>\$ 9,798,976</u></b>	<b><u>\$ 3,642,441</u></b>	<b><u>\$ 94,906,154</u></b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES:</b>							
Accounts payable	\$ 594,364	\$ 1,200,556	\$ 6,543,748	\$ 1,449,494	\$ 256,940	\$ 455,540	\$ 10,500,642
Accrued salaries and related benefits	611,510	77,194	14,900		6,014	3,366	712,984
Due to General Fund of the State - lapsed appropriations	501,068						501,068
Deferred revenue		24,400					24,400
<b>Total liabilities</b>	<b><u>1,706,942</u></b>	<b><u>1,302,150</u></b>	<b><u>6,558,648</u></b>	<b><u>1,449,494</u></b>	<b><u>262,954</u></b>	<b><u>458,906</u></b>	<b><u>11,739,094</u></b>
<b>FUND EQUITY:</b>							
Fund balances:							
Reserved for inventories	15,372						15,372
Reserved for restricted purpose funds carried forward	1,321,463						1,321,463
Reserved for State General Fund appropriations carried forward	3,043,496						3,043,496
Reserved for special events	578,674						578,674
Reserved for State economic development projects				18,583,072			18,583,072
Reserved for admissions tax projects						1,730,382	1,730,382
Reserved for aviation fuel tax projects						1,422,891	1,422,891
Reserved for State rural infrastructure fund training and projects					9,566,284		9,566,284
Reserved for water and wastewater infrastructure grants and administrative costs			46,041,390				46,041,390
Unreserved:							
Undesignated (deficit)	864,036	-					864,036
<b>Total fund equity</b>	<b><u>5,823,041</u></b>	<b><u>-</u></b>	<b><u>46,041,390</u></b>	<b><u>18,583,072</u></b>	<b><u>9,566,284</u></b>	<b><u>3,153,273</u></b>	<b><u>83,167,060</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$ 7,529,983</u></b>	<b><u>\$ 1,302,150</u></b>	<b><u>\$ 52,600,038</u></b>	<b><u>\$ 20,032,566</u></b>	<b><u>\$ 9,829,238</u></b>	<b><u>\$ 3,612,179</u></b>	<b><u>\$ 94,906,154</u></b>

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)**  
**JUNE 30, 2003**

**Reconciliation to the statement of net assets:**

Fund balances - governmental funds		\$	83,167,060
Amounts reported for governmental activities in the statement of net assets are different because:			
Liabilities are not due and payable in the current period, therefore, are not reported in the fund:			
Notes payable	\$	(6,500,000)	
Accrued compensated absences and related benefits		(834,174)	
Accrued interest payable		<u>(35,000)</u>	(7,369,174)
Assets capitalized and depreciated in statement of net assets are charged to expenditures in the governmental fund:			
Capital assets, net of accumulated depreciation			<u>6,221,339</u>
Net assets - governmental activities		\$	<u><u>82,019,225</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

	General	Federal	Water and Wastewater Infrastructure	State Economic Development	State Rural Infrastructure	Other Governmental	Total Governmental Funds
<b>REVENUES:</b>							
State appropriations	\$ 12,783,206	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,783,206
Gasoline and fuel taxes for State economic development				18,000,000			18,000,000
Federal grants		33,916,422					33,916,422
Allocations from other State agencies	150,000						150,000
Donations and contributions	39,807						39,807
Enterprise Zone Act fees	361,502						361,502
Application fees			31,140				31,140
Admissions taxes						1,052,728	1,052,728
Sale of publications	53,139						53,139
Aircraft rental	21,722						21,722
Sales of goods and services	153,025						153,025
Sales of surplus equipment and vehicles	6,700					22,475	29,175
Special events registration fees	255,290						255,290
Sponsorships of special events	364,750						364,750
Investment income	3,353		1,135,217				1,138,570
State Aviation Fund fees/taxes						606,547	606,547
Capital improvement bond revenue	290,836						290,836
Miscellaneous revenue	252,408					1,955	254,363
State Rural Infrastructure Fund job development fees					7,816,632		7,816,632
<b>TOTAL REVENUES</b>	<b>14,735,738</b>	<b>33,916,422</b>	<b>1,166,357</b>	<b>18,000,000</b>	<b>7,816,632</b>	<b>1,683,705</b>	<b>77,318,854</b>
<b>EXPENDITURES:</b>							
Administration and Support:							
Office of the Secretary	326,641						326,641
Financial services	2,383,447						2,383,447
Information technology	1,078,006						1,078,006
Programs and Services:							
Appalachian Regional Commission Grant funds	17,533	17,633					35,166
Export services	565,757						565,757
Business recruitment	1,996,080						1,996,080
Marketing	510,116						510,116
Film office	309,370						309,370
Research administration	793,612						793,612
Communications and special events	810,580						810,580
Rural and community development	346,321						346,321
Economic development set-aside administrative costs, projects and grants	314,428			16,697,065			17,011,493
Enterprise zone administrative and other costs	313,200						313,200
Community grants	479,083	33,494,802					33,973,885
Admission tax infrastructure grants						1,628,321	1,628,321

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2003**

	General	Federal	Water and Wastewater Infrastructure	State Economic Development	State Rural Infrastructure	Other Governmental	Total Governmental Funds
Flight operations	1,526,713	291,926					1,818,639
Recycling Market Development Advisory Council	158,091	13,300					171,391
Technology Division							-
State Rural Infrastructure Fund training and projects					2,969,069		2,969,069
Water and Wastewater Infrastructure grants and administrative costs			34,327,432				34,327,432
Allocation to other entities for airport capital improvements	290,835						290,835
Special items:							
Spoleto festival	484,620						484,620
Existing business	655,310						655,310
Union County Airport improvements	35,718						35,718
State Aviation Fund airport improvement projects and grants	276,278					646,264	922,542
Hartsville Airport	41,000						41,000
SEUS International Trade Show	600,000						600,000
Savannah River Site	14,966						14,966
Littlejohn	2,354						2,354
Spartanburg Renaissance	3,000,000						3,000,000
<b>TOTAL EXPENDITURES</b>	<b>17,330,059</b>	<b>33,817,661</b>	<b>34,327,432</b>	<b>16,697,065</b>	<b>2,969,069</b>	<b>2,274,585</b>	<b>104,446,802</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,594,321)</b>	<b>98,761</b>	<b>(33,161,075)</b>	<b>1,302,935</b>	<b>4,847,563</b>	<b>(590,880)</b>	<b>(27,127,948)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers between funds	460,000			(460,000)			-
Remitted to the General Fund of the State	(11,448)						(11,448)
Lapse to the General Fund of the State	(501,068)						(501,068)
Proceeds from notes payable	3,000,000						3,000,000
Indirect cost recovery remitted to General Fund of the State		(98,761)					(98,761)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,947,484</b>	<b>(98,761)</b>	<b>-</b>	<b>(460,000)</b>	<b>-</b>	<b>-</b>	<b>2,388,723</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>353,163</b>	<b>-</b>	<b>(33,161,075)</b>	<b>842,935</b>	<b>4,847,563</b>	<b>(590,880)</b>	<b>(27,708,294)</b>
<b>FUND BALANCES - BEGINNING OF YEAR, AS RESTATED</b>	<b>5,469,878</b>	<b>-</b>	<b>79,202,465</b>	<b>17,740,137</b>	<b>4,718,720.00</b>	<b>3,744,154</b>	<b>110,875,354</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 5,823,041</b>	<b>\$ -</b>	<b>\$ 46,041,390</b>	<b>\$ 18,583,072</b>	<b>\$ 9,566,283</b>	<b>\$ 3,153,274</b>	<b>\$ 83,167,060</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2003**

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES:**

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental funds	\$ (27,708,294)
Proceeds of notes payable are reported as an other financing source in the governmental funds and as an increase in liabilities on the statement of net assets	(3,000,000)
Depreciation of capital assets is reported as expenses in the statement of activities	(764,575)
Repayments of notes payable are reported as expenditures in the governmental funds and as a reduction of liabilities in the statement of net assets	195,687
Decrease in accrued compensated absences is reported as a decrease of expenses in the statement of activities	66,341
Proceeds from the sales of assets are reported as revenues in the governmental funds but as part of the loss on sales of assets on the statement of activities	(29,175)
Losses on disposals of capital assets are reported as an expense in the statement of activities	<u>(50,629)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b><u><u>\$ (31,290,645)</u></u></b>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of South Carolina Department of Commerce (the Department) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting policies are described below.

**Reporting Entity**

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government/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 government/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 government/entity. The primary government/entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

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

Otherwise, the organization is fiscally dependent on the primary government/entity that holds one or more of these powers.

The Department is responsible for the stimulation of economic development activity, management of business affairs of the Division of Savannah Valley Development, development of public airports and air transportation systems, and development of public railways systems. The Department is an agency of the State of South Carolina established by Section 1-30-10 and 1-30-25 of the Code of Laws of South Carolina.

The Department was created by the Government Restructuring Act of 1993 which became effective on July 1, 1993. The Governor appoints the director of this cabinet level department. The agency consists of a combination of the former agencies of the State Development Board, Aeronautics Commission, Coordinating Council for Economic Development (Coordinating Council), Savannah Valley Authority, and the South Carolina Public Railways Commission. Management has elected to exclude its enterprise funds, the Division of Public Railways and the Division of Savannah Valley Development from this reporting entity. Separate audited financial statements are available for each of the excluded divisions. The funds and account groups of the Department, including the two divisions excluded from this report, are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government. Copies of the reports for the two excluded divisions can be obtained from the Department at P.O. Box 927, Columbia, South Carolina, 29202.

## **SOUTH CAROLINA DEPARTMENT OF COMMERCE**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina that are attributable to the Department reporting entity defined above.

#### **Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed and used to account for the government's general government activities including the collection and disbursement of earmarked 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; and the differences between the assets and liabilities is the fund balance.

The Department reports the following major funds:

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, donations and contributions for special marketing events, State Capital Improvement Bond proceeds for grants to municipalities for airport improvements, allocations from other State agencies, and charges for goods and services. The revenues are used for general ongoing governmental services such as administration, maintenance, aeronautics and economic program development and service. Also included are operating transfers from the special revenue fund for Coordinating Council administrative costs and expenditures and for the South Carolina Infrastructure – Economic Development Planning Project expenditures. The general fund also includes application fees not to exceed \$2,000 from qualifying businesses applying for the tax incentives allowed under the Enterprise Zone Act of 1995. The application fees collected by the Coordinating Council must be expended for administrative, data collection, credit analysis, cost/benefits analysis, reporting and any other obligations pursuant to the Act. The Act allows for the carryforward of unexpended funds collected under the Act to the next fiscal year to be expended for the same purpose.

Federal funds consist primarily of Community Development Block Grant funds and are used primarily for water and sewage infrastructure grants and community housing grants.

The Water and Wastewater Infrastructure Fund was established by an act of the legislature in the fiscal year ended June 30, 2001. The fund received a portion of the proceeds (approximately \$78,000,000) from bonds that were sold by the South Carolina Tobacco Settlement Revenue Management Authority. The Department is not required to repay these funds. These funds along with any investment earnings are used to make grants to governmental units and private entities for constructing and improving water and wastewater facilities that are necessary for public purposes, including economic development and for technology related infrastructure grants for local units of government. The Department charged each applicant 2% of the grants awarded to be used for administrative expenses of operating the program. Application fees totaling approximately \$31,000 were received in the fiscal year ended June 30, 2003.

## **SOUTH CAROLINA DEPARTMENT OF COMMERCE**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The State Economic Development account established by South Carolina Code of Law Section 12-28-2910. This account accumulates the first \$18 million generated from the tax levied in Section 12-28-310. The proceeds are to be used for economic development projects approved through the Coordinating Council. The Coordinating Council establishes project priorities and authorizes all project expenditures. The economic development set-aside expenditures are primarily expended for infrastructure grants for roads when needed to complete negotiations with an economic development prospect.

The State Rural Infrastructure Fund was authorized by Section 12-10-85 to provide financial assistance to local government for training cost and facilities; improvements to regionally planned public and private water and sewer systems; improvements to both public and private electricity, natural gas, and telecommunications systems; and fixed transportation facilities. These funds are received from the South Carolina Department of Revenue and represent funds collect pursuant to SC Code 12-10-80.

Other non-major governmental funds include admissions tax revenue authorized by Section 12-21-6510. Section 12-21-6540 provides that amount equal to one-fourth of the license tax on admissions to major tourism facilities collected by the Department of Revenue is remitted to the Department. The Coordinating Council approves expenditures of these funds specifically for infrastructure development grants. Other governmental funds also include the Aviation Fuel tax authorized by Section 55-5-280 which provides for "all monies received from the licensing of airports, landing fields and air schools, the tax on aviation gasoline and fees and other licenses under this chapter to be credited to the "State Aviation Fund" to be used for airport improvements and job development fees paid by various companies received by the Department.

#### **Government-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.

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.

#### **Measurement Focus, Basis of accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. 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 Department considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

## **SOUTH CAROLINA DEPARTMENT OF COMMERCE**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **Revenues – Exchange and Non-Exchange Transactions**

Revenue 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.

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 Commission on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

#### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Department follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements costing \$100,000 or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Department capitalized movable personal property with a unit value in excess of \$5,000 and a useful life in excess of one year and buildings and improvements and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles.

#### **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 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 for any of the funds since not all revenues or expenditures are legally budgeted in any of the funds.

## **SOUTH CAROLINA DEPARTMENT OF COMMERCE**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **Cash and cash equivalents with State Treasurer**

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

Most State agencies including the Department participate in the State's internal cash management pool. 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 pertinent to the cash management pool, see the deposits disclosure 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 account at cost 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's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated interest 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.

#### **Compensated Absences**

State employees are entitled to accrue and carry forward at calendar year-end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. In the governmental funds, expenditures for compensated absences are recorded when payment is made. Since no funds are budgeted for compensated absences in excess of the actual amount incurred during the year, no additional expenditures are accrued as a current liability of the governmental funds. The Department calculates the gross compensated absence liability based on recorded balances of unused leave. The entire unpaid liability, inventoried at current fiscal year-end salary costs and the cost of the salary related benefit payments, is recorded as a liability in the statement of net assets.

#### **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 certain 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. The Department retains and expends other recoveries.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**Net Assets / Fund Balance**

The Department records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net assets are categorized as follows:

Invested in capital assets, net of related debt: This represents the Fund's total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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 net assets: Consists of the remainder of the Department's assets in excess of liabilities excluding those net assets reported in other categories.

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

**Use of Estimates**

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

**NOTE 2. STATE APPROPRIATION:**

The following represents a reconciliation of the Appropriation Act for the period ended June 30, 2003 as originally enacted by the General Assembly to appropriation revenue as reported in the general fund.

Original appropriation	\$ 13,303,048
Allocations by State Budget & Control Board for funding increase in health insurance costs	23,207
State budget mid-year reductions	(1,139,719)
Supplemental appropriation for SEUS International Trade Show (Proviso 72.98)	<u>600,000</u>
Adjusted Appropriation, Budgetary Basis	12,786,536
Accrual adjustments:	
Funding for personal services and employer contributions	<u>(3,330)</u>
Accrual basis State appropriation revenue	<u><u>\$ 12,783,206</u></u>

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

The Coordinating Council receives State General Fund appropriations for special purposes only. These appropriations do not cover operating costs. The Department allocates funds from its State appropriation to cover operating cost associated with management of these special purpose State General Fund appropriations.

The amount of the 2000 Capital Reserve Fund appropriation brought forward to fiscal year 2003 was \$48,476. \$12,757 of this amount was carried forward to fiscal year 2004 pursuant to the August 1999 Joint Resolution R201, H3697.

The amount of State funds brought forward to fiscal year 2003 was \$2,827,919. The Department brought forward to fiscal year 2003 \$50,000 for county airport improvements at Hartsville Airport and \$2,499,115 for allocation to the Coordinating Council for economic development as allowed by part VI of the 1997 Appropriations Act. In addition, \$276,301 of funds appropriated for Aviation grants was brought forward pursuant to Proviso 27.16 of the 2003 appropriations Act and \$2,504 was brought forward for specific purposes per Proviso 72.44 of the 2002 Appropriations Act.

The amount of State General Fund appropriations to be carried over to fiscal year 2004 is \$3,043,496. This carry forward is reported as reserved fund balance. The Department carried forward to fiscal year 2003 \$9,000 for county airport improvements at Hartsville Airport. \$2,499,115 allocated to the Coordinating Council for economic development was carried forward as allowed by Part VI of the 1997 Appropriations Act. In addition, \$535,351 of funds appropriated for Aviation grants was carried forward pursuant to Proviso 27.16 of the 2003 Appropriations Act.

Proviso 72.41 of the 2003-2004 Appropriations Act authorizes the Department to carry forward unspent fiscal year 2003 appropriations up to a maximum 10% of the original appropriation less any reduction to the 2003 fiscal year excluding amounts carried forward under separate carry forward authority. Unspent fiscal year 2003 appropriations amounted to \$501,068 as of June 30, 2003. The proviso states the provision may be suspended if necessary to avoid a fiscal year-end State General Fund deficit. Due to the State General Fund's budget deficit, these funds lapsed back to the State's General Fund and the above amount is shown as a liability in the financial statements.

**NOTE 3. DEPOSITS AND INVESTMENTS:**

Cash and cash equivalents consist of deposits under the control of the State Treasurer, who by law, has sole Fund for investing State funds and deposits under the control of the Department Fund. However, as authorized by the State Treasurer's office, certain funds for foreign office operation are invested and deposited with foreign financial institutions.

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

Financial Statements		Footnotes	
Cash and cash equivalents	\$ 38,714,193	Deposits Held by State Treasurer	\$ 38,399,096
Investments	49,307,606	Other Deposits	314,797
		Petty Cash	300
		Investments	49,307,606
	\$ 88,021,799		\$ 88,021,799

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

The account classified as "Cash on deposit with the State Treasurer" in the financial statements consists of amounts in the general and special deposits accounts with the State Treasurer as part of the State's internal cash management pool. The special deposits are in a composite account that draws interest. The account classified as cash on hand consists of cash used for petty cash and change fund purposes. Cash held in foreign accounts consists of cash held by foreign banks for the Tokyo, Japan; Hong Kong; and Munich, Germany offices.

**Deposits**

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

The Entity's deposits which are not with the State Treasurer are categorized to indicate the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits insured or collateralized with securities held by the entity/entities. Category 2 includes deposits collateralized with securities held by the pledging financial institution trust department or agent in the entity's name. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

All of the deposits with foreign banks are in Category 3 and the carrying amount and bank balance was \$314,797 as of June 30, 2003. The highest balance of deposits in Category 3 during the year was approximately \$513,700.

**Investments**

Legally authorized investments include obligations of the United States, obligations of the State of South Carolina and other states and certain of their political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

All of the Department's investments are stated at fair value except those meeting certain specific requirements. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis. Earnings are recorded on the accrual basis.

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

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

1. Insured or registered, or for which the securities are held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the government's name.

A summary of other investments at June 30, 2003 by credit risk category follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
State and local obligations	\$49,307,606			\$49,307,606	\$49,307,606

**NOTE 4. INVENTORIES:**

The Department's Aeronautics Division had inventories at June 30, 2003 of \$15,372. The inventories consisted of jet and automotive fuels and are accounted for at the lower of cost or market on a first-in, first-out basis.

**NOTE 5. STATE CAPITAL IMPROVEMENT BOND PROCEEDS:**

In prior years, the State of South Carolina authorized funds for improvements and expansion of municipal airport facilities and various other projects within the State using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the municipal entity. The Department records the proceeds as revenue when the expenses/expenditures are incurred. These funds represent a type of pass-through grant to municipal entities, and are reported as allocations to other entities for airport capital improvements and special items. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The Department is not obligated to repay state capital improvement bonds.

A summary of the balances available from these authorizations as of June 30, 2003 follows:

Act	Total Authorized	Balance Undrawn June 31, 2003
R256 of 1991	\$ 3,861,687	\$ 3,628
111 of 1997	3,000,000	546,012
Totals	\$ 6,861,687	\$ 549,640

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 6. CAPITAL ASSETS:**

The following schedule summarizes capital assets activity for the Department for the fiscal year 2003:

	Beginning Balances as Restated June 30, 2002	Increases	Decreases	Ending Balances June 30, 2003
Capital assets:				
Buildings and improvements	4,035,982			4,035,982
Equipment and furniture	1,497,922		(155,274)	1,342,648
Vehicles	4,669,631			4,669,631
Total other capital assets	<u>10,203,535</u>	<u>-</u>	<u>(155,274)</u>	<u>10,048,261</u>
Less accumulated depreciation for:				
Buildings and improvements	1,552,714	196,500		1,749,214
Equipment and furniture	689,906	168,086	(75,470)	782,522
Vehicles	895,197	399,989		1,295,186
Total accumulated depreciation	<u>3,137,817</u>	<u>764,575</u>	<u>(75,470)</u>	<u>3,826,922</u>
Total capital assets, net	<u>\$ 7,065,718</u>	<u>\$ (764,575)</u>	<u>\$ (79,804)</u>	<u>\$ 6,221,339</u>

**NOTE 7. DUE FROM THE GENERAL FUND OF THE STATE:**

The amount receivable represents funds 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. By State law, these accruals are paid from funds appropriated for the next fiscal year.

**NOTE 8. NOTES PAYABLE:**

On November 9, 2001, the Department borrowed \$219,000 under a note payable from a financial institution. Monthly payments of \$6,387 including interest at 3.19% commenced March 15, 2002 with final maturity on February 15, 2005. The note is secured by non-capitalized equipment with an original cost of approximately \$219,000. The Department has been repaying this debt from the General Fund. The Department paid off the loan on June 24, 2003 including a \$1,121 prepayment penalty.

On March 1, 2002, the Department borrowed \$3,500,000 from the South Carolina State Budget and Control Board to be repaid on March 1, 2003 with simple interest at 3% per annum. These funds were utilized to fund \$3,500,000 grant for the Spartanburg Renaissance project. All revenue and funds of the Department are pledged to secure this loan. The loan was not paid during the fiscal year and the Department will not be required to repay the loan in the fiscal year ended June 30, 2004 per Proviso 63.58 of the 2003-2004 Appropriation Act. On July 1, 2002, the Department borrowed an additional \$3,000,000 from the South Carolina State Budget and Control Board for the same purpose, to be repaid on July 2, 2003 with interest at 3% per annum. During fiscal year 2003, the loan terms were amended, requiring the Department to repay the \$3,000,000 in four equal annual installments of \$750,000 each beginning in fiscal year 2004. No interest has been accrued on these two loans since the revised agreements did not address the interest.

Total interest expense on the notes payable during the fiscal year was \$6,341.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

Details of annual debt service as of June 30, 2003, including interest, for each year are as follows:

Year ending June 30	
2004	\$ 750,000
2005	4,250,000
2006	750,000
2007	<u>750,000</u>
Total debt service obligations	<u><u>\$ 6,500,000</u></u>

**NOTE 9. LONG-TERM LIABILITIES:**

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance, July 1, 2002	Additions	Reductions	Balance, June 30, 2003	Due Within One Year
Notes payable	\$ 3,695,687	\$ 3,000,000	\$ 195,687	6,500,000	\$ 4,250,000
Accrued compensated absences and related benefits	900,515	534,659	601,000	834,174	601,000
	<u>\$ 4,596,202</u>	<u>\$ 3,534,659</u>	<u>\$ 796,687</u>	<u>\$ 7,334,174</u>	<u>\$ 4,851,000</u>

**NOTE 10. LEASE OBLIGATIONS:**

**OPERATING LEASES**

The Department has entered into operating leases for non-state owned land, office space and some office equipment with external parties. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 2004 through 2029. 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.

Rental expenditures for all operating leases aggregated approximately \$1,430,000 for the year ended June 30, 2003. The following is a schedule by fiscal year of future minimum rental payments at June 30, 2003 required under the noncancellable operating lease agreements.

Year	Amount
2004	\$1,000,236
2005	1,033,236
2006	997,186
2007	975,516
2008	975,516
2009-2013	336,772
2014-2018	255,540
2019-2023	255,540
2024-2028	255,540
2029	12,777
Total	<u><u>\$6,097,859</u></u>

The Department paid the State Budget and Control Board approximately \$141,000 for vehicle rentals on year to year leases. These leases are generally renewed each year.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 11. FUND BALANCE RESERVATIONS:**

In addition to the General Fund reservations for restricted purpose State General Fund appropriations carried forward and disclosed in Note 2, other fund balance reservations in the general fund were for restricted purposes and equaled \$1,321,463 at fiscal year end 2003. Included in this amount are the following: \$84,343 carried forward for administrative, data collection, credit analysis, cost-benefit analysis and reporting expenditures under the enabling act for the enterprise zones; \$661,757 of proceeds from aircraft sales carried over to be used for purchase of replacement aircraft under Proviso 27.15 of the 2002-2003 Appropriation Act; \$104,064 from the South Carolina Department of Health and Environmental Control to fund the activities of the Recycling Market Development Advisory Council; \$243,327 for the Coordinating councils administrative costs; \$12,757 for the Union County airport improvements; and \$203,745 for other legally and contractually required purposes.

**NOTE 12. TRANSACTIONS WITH STATE AGENCIES:**

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

The Department remitted indirect cost recoveries received under various grants to the State General Fund. In addition, the Department remitted \$6,000 of hanger rental income pursuant to Proviso 27.10 of the 2002-2003 Appropriations Act. Also, \$5,448 was refunded for a prior period expenditure.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer and legal services from the Attorney General; collection of highway taxes levied under South Carolina Code of Laws Section 12-28-2910 by the Department of Revenue; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget, property management and record keeping review and approval of certain budget amendments and other centralized functions.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for workers compensation and unemployment insurance coverage, respectively.

The Department provided no material services free of charge to other State agencies during the fiscal year. Services provided for a fee include air transportation and sale of fuel and supplies. Revenues from other State agencies are recognized when goods or services are provided by the Department. Revenues from other State agencies are included in the "Aircraft rental" and "Sale of goods and services" revenue accounts. Significant revenues derived from other State agencies amounted to approximately \$122,000. The amount due from other State agencies as of June 30, 2003 was \$39,709. This includes \$19,380 due from the State Health Insurance Reserve Fund for the reimbursement for the overpayment of health and dental premiums.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

State agency members of the Coordinating Council for Economic Development voted not to assess dues to its members beginning with the fiscal year ended June 30, 1995. The Council determined that it would be satisfactorily funded with "highway taxes for State Economic Development". The Coordinating Council for Economic Development administers and has responsibility for the State Economic Development account. The member agencies of the Council are the Department of Agriculture, the State Ports Authority, the Department of Revenue, the Department of Commerce – State Division of Development, the Department of Parks, Recreation and Tourism, Santee Cooper, the Jobs-Economic Development Authority, the State Board of Technical and Comprehensive Education, the State Budget and Control Board – Office of Research and Statistical Services, and the Employment Security Commission.

Pursuant to Sections 12-10-80 and 12-10-85 of the South Carolina Code of Laws, the Department received \$7,816,632 in job development fees from the State Department of Revenue to be retained in the State Rural Infrastructure Fund which included \$4,447,061 due to the Department from the State Department of Revenue as of June 30, 2003. The State Department of Revenue also collects and remits to the Department admissions, gasoline and aviation fuel taxes. The Department received \$1,052,728 and \$18,000,000 in admissions and gasoline taxes; respectively. \$370,463 of the \$1,052,728 was due from the Department of Revenue as of June 30, 2003. The Coordinating Council approves expenditures of these funds specifically for infrastructure development grants. The Department received \$606,547 in aviation fuel tax to be spent on airport improvements as directed by the Department's Aeronautics division.

The Department received the following allocations from other state agencies during the current year:

<u>Agency Transferred from</u>	<u>Purpose</u>	<u>Amount</u>
Department of Health and Environmental Control	Recycling Program	\$ 150,000

**NOTE 13. PENSION PLAN:**

The Retirement Division of the State Budget and Control Board 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.

The majority of 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 administered by the Retirement Division, 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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective, January 1, 2001).

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. 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 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, 2002 the employer contribution rate became 10.70 percent which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2003, 2002 and 2001 were approximately \$536,214, \$585,176 and \$618,000, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Department paid employer group life insurance contributions of approximately \$10,651 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Department for pension and group-life benefits are expenditures reported as employer contribution within the applicable program.

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

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the fund recognizes no contingent liability for unfunded costs associated with participation in the plan. At retirement, employees participating in SCRS may receive additional service credit (at a rate of 20 days equal to one month of service) 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 3.15 percent from the employer in fiscal year 2003.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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 \$4,300 (excluding the surcharge) from the Commission as employer and approximately \$3,500 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 \$85 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 14. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the Annual Appropriations 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 employees and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion 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 25,000 State retirees met these eligibility requirements as of June 30, 2003.

The Department recorded employer contribution expenditures applicable to these insurance benefits for active employees in the amount of approximately \$482,000 for active employees for the year ended June 30, 2003. As discussed in Note 13, the Department paid approximately \$224,000 applicable to the 3.15% 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 the 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 South Carolina General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the South Carolina General Fund annually.

**NOTE 15. 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 Section 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 COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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. 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 in the prior year. Settled claims have not exceeded this coverage in any of the past 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 the deductibles.

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-insurance plan except dependent and optional life premiums which 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;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

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

The Department obtains up to \$10,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Department also purchases insurance through a commercial insurer for aircraft coverage, including bodily injury and property damage insurance up to \$10 million per occurrence and aircraft physical damage insurance based on the insured value of each aircraft maintained by the Department.

The Department also has insurance coverage on its 12.50% share of the airplane as detailed in Note 19.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

The Department has not transferred the portion of risk of loss related to insurance policy deductibles, and policy limits to a State or commercial insurer. The Department reported no expenditures in the current year for actual claims payment and costs related to such retained risks of loss.

In management's opinion, claims losses in excess of insurance coverage 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. Therefore, no loss accrual has been recorded.

**NOTE 17. OPERATING TRANSFERS:**

The Department transferred \$60,000 of Coordinating Council funds from the Special Revenue Fund to the General Fund to use for the development of the South Carolina Infrastructure-Economic Development Planning Project as provided for in Proviso 27.3 of the 2002-2003 Appropriations Act. In addition, \$400,000 of Coordinating Council Funds was transferred by the Coordinating Council to the General Fund to be used for the council's administrative costs as provided for in Proviso 27.3 of the 2002-2003 Appropriations Act.

**NOTE 18. CONTINGENT LIABILITIES:**

The various federal programs administered by the Department for the fiscal year 2003 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 information to indicate that a liability should be recorded at fiscal year-end.

**NOTE 19. COMMITMENTS:**

The Department engages in a variety of development projects. All project commitments are to local government entities which are responsible for contracting with specific vendors to achieve the project objectives. Outstanding commitments as of June 30, 2003 are as follows:

Water and Wastewater Infrastructure Grants	\$	45,387,899
State Rural Infrastructure Grants		2,486,955
Community Development Block Grants		16,637,227
State Economic Development Programs		21,373,274
Airport Improvement and Expense Projects - funded by State Capital Improvement Bonds		513,627
Aviation Fuel Tax Grants		323,686
State Aviation Fuel Grants		453,563
Union County Airport		12,757
Totals	\$	<u>87,188,988</u>

In connection with the purchase of a 12.5% undivided interest in an airplane, the Department is obligated to pay a monthly management fee of \$11,114 as long as it owns the airplane. The management fee includes the cost of pilot training; pilot salaries; arranging for maintenance; scheduling; insurance against any loss, theft or damage to the aircraft and liability insurance for bodily injury and property damage; reports and recordkeeping. In addition to the management fee the Department pays an hourly rate for each hour it uses the airplane. The monthly management fee and hourly charge are subject to adjustments for inflation factors. The expenditures are included under flight operations. The Department has the right to sell its interest in the airplane back to the seller anytime after 24 months from the closing date of June 13, 2000 and must sell it back 60 months from the closing date.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

In accordance with Proviso 72.68 of the 2002-2003 Appropriations Act, the Department offered an incentive payout program at the end of fiscal year 2003. Eligible employees received one year's base salary less applicable state and federal taxes. Employees also received payment for any unused annual and compensatory leave balances. Total payments under this program for the year were approximately \$206,000 during fiscal year 2003. The Department paid approximately \$770,000 in additional incentive payouts subsequent to June 30, 2003.

**NOTE 20. PRIOR PERIOD ADJUSTMENT:**

A \$1,270,461 adjustment was made to correct the overstatement of cash in the State Economic Development Fund and the understatement of cash in the General Fund as of June 30, 2002.

**NOTE 21. CHANGE IN ACCOUNTING ESTIMATE:**

During the fiscal year, the Department changed their estimate of salvage values on various vehicles. The Department believes the new salvage values are a better estimate of the actual salvage values. The change had the effect of increasing current year depreciation expense by approximately \$177,000.

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures Subrecipients</u>
<b>U.S. Department of Housing and Urban Development</b>			
Direct Program:			
Community Planning and Development Community Development Block Grants/State's Program	14.228	\$ 31,449,603	\$ 31,052,393
<b>U.S. Department of Transportation</b>			
Direct Program:			
Federal Aviation Administration Airport Improvement Program	20.106	291,926	
<b>Appalachian Regional Commission</b>			
Direct Programs:			
Appalachian State Research, Technical Assistance and Demonstration Projects	23.011	18,025	
Appalachian Area Development	23.002	938,035	
<b>U.S. Environmental Protection Agency</b>			
Direct Programs:			
Solid Waste Management Assistance	66.808	<u>13,300</u>	<u>                    </u>
<b>TOTALS</b>		<u><u>\$ 32,710,889</u></u>	<u><u>\$ 31,052,393</u></u>

The Schedule of Expenditures of Federal Awards. includes the federal grant activity of the South Carolina Department of Commerce and 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 COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of South Carolina Department of Commerce (the Department) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 6, 2004 which was qualified because of the omission of the Department's enterprise funds. 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.

### Compliance

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 grants, 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.

### 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 03-1 through 03-2.

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 misstatements 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.



• **SCACPA**

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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 are material weaknesses.

This report is intended solely for the information and use of the Governor, the Secretary of Commerce, 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 & Latham, PA*

February 6, 2004



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO ITS 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 Commerce (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, 2003. 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 program for the year ended June 30, 2003.

### 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.



• SCACPA

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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.

This report is intended solely for the information and use of the Governor, the Secretary of Commerce, 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 & Lalam PA*

February 6, 2004

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SUMMARY OF AUDITOR'S RESULTS**

Financial statements:

1. A qualified opinion dated February 6, 2004 on the financial statements of the Department for the year ended June 30, 2003 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 February 6, 2004 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 program of the Department is the Community Development Block Grant – CFDA #14.228
8. The dollar threshold used to distinguish between Type A and Type B programs was \$981,327.
9. The Auditee was determined to be a low risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**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 government auditing standards generally accepted in the United States of America.

**03-1 ACCOUNTS PAYABLE UNDERSTATED**

**Condition:**

The Department did not record the total amounts allocated to other entities under various programs including the Water and Wastewater Infrastructure fund and the State Economic Development account in its accounts payable closing package submitted to the State Comptroller General. Total accounts payable were understated by \$3,671,775 for the year ended June 30, 2003. Of the \$3,671,775, we discovered \$835,853 that should have been included on the closing package, related to invoices paid during July and August 2003. The remaining \$2,835,922 related to vouchers paid during the period of September through December 2003 which would have been paid after the deadline of the submission of the closing package. The same finding was cited in the prior year's report.

**Cause:**

The Department did not perform a careful review of vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year were recorded. In addition, the Department received numerous reimbursement request from subrecipients after the Comptroller General's cutoff date for the submission of the closing packages, as such, these amounts were not included in the closing package.

**Effect:**

Liabilities and expenses/expenditures are being understated. Audit adjustments were made to the Department's financial statements to correct these understatements.

**Criteria:**

Good business practices and GAAP require that the Department to record all liabilities existing as fiscal year-end.

**Recommendation:**

The procedures being used to identify an invoice as a payable need to adhere more closely with GAAP. The Department should carefully review all vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year are recorded. We further recommend that the Department implement procedures to ensure that grant recipients submit requests for reimbursements in a more timely manner.

**03-2 ERRORS IN CAPITAL ASSETS CLOSING PACKAGE**

**Condition:**

The errors that were discovered during our testing of capital assets are as follows:

1. The Department did not record current year depreciation on disposed machinery and equipment on the capital asset closing package.
2. The Department did not record the proper amount of accumulated depreciation removed from the disposal of machinery and equipment on the capital asset closing package.
3. The Department did not properly calculate current year depreciation on vehicles.

Findings regarding depreciation errors were also cited in the prior year's report.

**Cause:**

Department personnel did not reconcile their capital asset depreciation schedule to the capital assets closing package and did not carefully review the schedule for reasonableness. As a result of changing the salvage values on capital assets, the current year's depreciation expense was not calculated properly. A detailed review by someone independent of the preparer should be performed.

**Effect:**

Misstatements in current year depreciation expense and accumulated depreciation. Audit adjustments were made to the Department's financial statements to correct these misstatements.

**Criteria:**

Good business practices require that all schedules be reconciled and that they be reviewed for reasonableness.

**Recommendation:**

We recommend that the Department implement adequate review procedures to ensure that all schedules and reports that it prepares are accurate.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.

# **CORRECTIVE ACTION PLAN**

## **APPENDIX A**



Mark Sanford  
Governor

**SOUTH CAROLINA**  
DEPARTMENT OF COMMERCE

Robert A. Faith  
Secretary

March 9, 2004

Rogers and Laban, PA  
Certified Public Accountants and Financial Consultants  
Mr. Barry Laban  
PO Box 124  
Columbia, South Carolina 29202

Dear Mr. Laban:

This is in response to the Management Letter Findings and Comments for the audit period ending June 30, 2003 for the South Carolina Department of Commerce.

**Management Letter Finding: 03-1 Accounts Payable Understated**

**Summary of Condition:** The Department is not recording amounts allocated to other entities under various grant programs including Water and Wastewater Infrastructure, CDBG and other Economic Development programs in its Accounts Payable Closing Package submitted to the State Comptroller General.

**Recommendation:** The procedures being used to identify an invoice as a payable need to more closely adhere with GAAP. The Department should carefully review all vouchers processed subsequent to fiscal year end to ensure that all liabilities attributable to the fiscal year are recorded. We further recommend that the Department implement procedures to ensure that grant recipients submit reimbursements in a more timely manner.

**Management Response:** Management agrees with the Accounts Payable finding. While the Department did begin this process last year and reported payables on the GAAP Closing Package, the Department did not carry out the payables process past the required time in the closing package. We also agree that grant recipients should submit reimbursements in a more timely manner. We will work with the Grants and Incentives Division to ensure a reimbursement procedures is created and in place for all reimbursements.

**Management Letter Finding: 03-2 Errors in Capital Assets Closing Package**

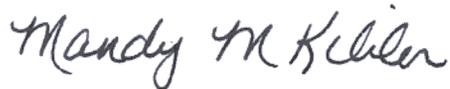
**Summary of Condition:** The Department is not recording depreciation and/or accumulated depreciation correctly on disposals of machinery and equipment and the current year depreciation on vehicles was not properly calculated.

**Recommendation:** We recommend that the Department implement adequate review procedures to ensure that all schedules and reports that it prepares are accurate.

**Management Response:** Management agrees with the Capital Assets finding. The Department will ensure that management reviews all schedules and calculations in the Capital Assets Closing Package prior to submission to the Comptroller General's Office.

If you need additional information on any of these matters, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Mandy M Kibler".

Mandy M. Kibler  
Director of Support Services