

**SOUTH CAROLINA GOVERNOR'S OFFICE**

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**AUDITED FINANCIAL STATEMENTS,  
OTHER FINANCIAL INFORMATION  
AND SINGLE AUDIT SECTION**

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**YEAR ENDED JUNE 30, 2005**

# *State of South Carolina*



## *Office of the State Auditor*

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

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX 803 343-0723

January 23, 2006

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

This report on the audit of the basic financial statements of the South Carolina Governor's Office and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2005, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

SOUTH CAROLINA GOVERNOR'S OFFICE

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AUDITED FINANCIAL STATEMENTS,  
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YEAR ENDED JUNE 30, 2005

SOUTH CAROLINA GOVERNOR’S OFFICE

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AUDITED FINANCIAL STATEMENTS,  
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YEAR ENDED JUNE 30, 2005

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SOUTH CAROLINA GOVERNOR’S OFFICE

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AUDITED FINANCIAL STATEMENTS,  
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DELOACH & WILLIAMSON, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS  
1401 MAIN STREET, SUITE 660  
COLUMBIA, SOUTH CAROLINA 29201

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

**REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in *Note 1*, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the Office that comprise the South Carolina Governor's Office reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2005 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Governor's Office as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with Government Auditing Standards, we have also issued our report-dated December 15, 2005, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Releach & Williamson, L.L.P.*

December 15, 2005

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

As management of the South Carolina Governor's Office (the "Office" or "Agency"), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2005.

**Financial Highlights**

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$4,521,270. These funds will be used to meet the office's ongoing obligations.
- The Office's total net assets increased by \$837,677.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$5,409,414, an increase of \$906,859 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$788,045.

**Overview of the Financial Statements**

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

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

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

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



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

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

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

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

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-41 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the South Carolina Governor's Office compliance with its adopted budget. Required supplementary information can be found on pages 42-46.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 47-51 of this report.

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

**Government Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the South Carolina Governor's Office, assets exceeded liabilities by \$4,521,270 at the close of the most recent fiscal year.

By far the largest portion of the Office's assets (88.4 percent) represents cash, cash equivalents, and cash held by fiscal agent.

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

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

**Condensed Statement of Net Assets**

	<b>June 30,</b>	
	<b>2004</b>	<b>2005</b>
<b>Assets</b>		
Current assets	\$ 7,081,210	\$ 8,749,561
Capital assets, net of accumulated depreciation	28,703	25,729
<b>Total Assets</b>	<b>7,109,913</b>	<b>8,775,290</b>
<b>Liabilities</b>		
Current liabilities	3,136,973	3,911,522
Non-current liabilities	289,347	342,498
<b>Total Liabilities</b>	<b>3,426,320</b>	<b>4,254,020</b>
<b>Net Assets</b>		
Invested in capital assets	28,703	25,729
Unrestricted	3,654,890	4,495,541
<b>Total Net Assets</b>	<b>\$ 3,683,593</b>	<b>\$ 4,521,270</b>

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

**Statement of Revenues, Expenses and Changes in Net Assets**

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

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

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

There was an increase of \$837,677 in net assets reported from the prior fiscal year.

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

	<b>Years Ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
Revenue	\$ 53,192,618	\$ 62,620,131
Expenditures	55,575,582	61,593,435
Excess "deficit" of revenue over "under" expenditures	(2,382,964)	1,026,696
Other financing uses, gains, or loses	(154,790)	(119,837)
Change in Fund Balance	(2,537,754)	906,859
Fund Balance-beginning of year	7,040,309	4,502,555
Net assets at end of year	<u>\$ 4,502,555</u>	<u>\$ 5,409,414</u>

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

- Depreciation expense of \$14,040 was recorded as required by GASB Statement 34.

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

**General Fund Budgeting Highlights**

General Fund Appropriations were \$3,883,793 more in fiscal year 2005 than fiscal year 2004. This can be attributed to the Continuum of Care being transferred to the Governors Office July 1, 2004.

**Capital Assets and Debt Administration**

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2005 amounts to \$25,729 (net of accumulated depreciation). This investment in capital assets includes vehicles and equipment. Currently the Office has no investments in land or buildings.

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

**Economic Outlook**

The agency is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the agency's economic outlook during the fiscal year that started July 1, 2005.

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

**Requests for Information**

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

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 7,757,075
Accounts receivable	424,342
Federal grant receivable	19,584
Due from the State General Fund	548,560
Total current assets	<u>8,749,561</u>
Noncurrent assets:	
Capital assets:	
Equipment	181,850
Less accumulated depreciation	<u>(156,121)</u>
Total capital assets, net of depreciation	<u>25,729</u>
Total assets	<u>8,775,290</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	1,816,788
Accrued payroll	984,488
Accrued compensated absences	571,375
Notes payable	500,000
Deposits held for clients	38,871
Total current liabilities	<u>3,911,522</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>342,498</u>
Total non-current liabilities	<u>342,498</u>
Total liabilities	<u>4,254,020</u>
<b>Net Assets</b>	
Invested in capital assets	25,729
Unrestricted	<u>4,495,541</u>
Total net assets	<u><u>\$ 4,521,270</u></u>

*See accompanying notes.*

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>Functions/Programs:</b>			
General government	\$ 11,106,986	\$ -	\$ (11,106,986)
Grants and programs	<u>50,675,468</u>	<u>51,492,598</u>	<u>817,130</u>
Total primary government	<u><u>\$ 61,782,454</u></u>	<u><u>\$ 51,492,598</u></u>	(10,289,856)
General revenue:			
State appropriations			<u>11,127,533</u>
Change in net assets			837,677
Net assets - beginning of year			<u>3,683,593</u>
Net assets - end of year			<u><u>\$ 4,521,270</u></u>

*See accompanying notes.*

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	Federal Grants and Programs	Victims' Assistance	Veterans' Affairs	Other Governmental Funds	Totals
<b>Assets and Other Debits</b>						
Cash and cash equivalents	\$ 1,663,347	\$ 791,643	\$ 3,636,333	\$ 348,514	\$ 1,317,238	\$ 7,757,075
Accounts receivable	-	3,814	-	3,348		424,342
Federal grant revenue receivable	-	19,584	-	-		19,584
Due from the State General Fund	548,560				417,180	548,560
Total assets	<u>\$ 2,211,907</u>	<u>\$ 815,041</u>	<u>\$ 3,636,333</u>	<u>\$ 351,862</u>	<u>\$ 1,734,418</u>	<u>\$ 8,749,561</u>
<b>Liabilities and Fund Equity</b>						
Liabilities:	-	-	-	-	-	-
Accounts payable	\$ 875,302	\$ 715,943	\$ 8,184	\$ -	\$ 217,360	\$ 1,816,789
Accrued payroll and related liabilities	548,560	111,611	84,298	-	240,018	984,487
Notes payable	-	-	-	500,000	-	500,000
Deposits held for clients	-	-	-	38,871	-	38,871
Total liabilities	<u>1,423,862</u>	<u>827,554</u>	<u>92,482</u>	<u>538,871</u>	<u>457,378</u>	<u>3,340,147</u>
Fund equity:						
Fund balances:						
Reserved for various restricted purposes	-	(12,513)	3,543,851	(187,009)	1,277,040	4,621,369
Reserved for restricted purposes to be carried forward	788,045	-	-	-	-	788,045
Total fund equity	<u>788,045</u>	<u>(12,513)</u>	<u>3,543,851</u>	<u>(187,009)</u>	<u>1,277,040</u>	<u>5,409,414</u>
Total liabilities and fund equity	<u>\$ 2,211,907</u>	<u>\$ 815,041</u>	<u>\$ 3,636,333</u>	<u>\$ 351,862</u>	<u>\$ 1,734,418</u>	<u>\$ 8,749,561</u>

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE  
BALANCE SHEET - GOVERNMENTAL FUNDS

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Reconciliation to the statement of net assets:

Total fund balances - governmental funds	\$ 5,409,414
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Furniture & Equipment	181,850
Accumulated depreciation	<u>(156,121)</u>

Total capital assets	25,729
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Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Accrued compensated absences	<u>(913,873)</u>
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Net assets of governmental activities	<u><u>\$ 4,521,270</u></u>
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*See accompanying notes.*



SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2005

	General	Federal Grants and Programs	Victims' Assistance	Veterans' Affairs	Other Governmental Funds	Totals
<b>Revenue</b>						
State appropriations	\$ 11,127,533	\$ -	\$ -	\$ -	\$ -	\$ 11,127,533
Federal grants and programs	-	29,371,877	-	-	161,413	29,533,290
Other government grants and contributions	-	-	3,499,328	301,060	4,642,387	8,442,775
Medicaid reimbursements	-	37,620	6,193	-	3,220,373	3,264,186
Victim restitutions	-	-	9,725,326	-	-	9,725,326
Fines & Forfeitures	-	-	-	-	527,020	527,020
Total revenue	11,127,533	29,409,497	13,230,847	301,060	8,551,193	62,620,130
<b>Expenditures</b>						
Federal grants and programs:						
Personal services	-	1,203,518	-	-	-	1,203,518
Employer contributions	-	324,098	-	-	-	324,098
Other operating	-	415,207	-	-	-	415,207
Claims and awards	-	3,865,743	-	-	-	3,865,743
Distributions to subrecipients	-	23,412,501	-	-	-	23,412,501
Finance and administration:						
Personal services	2,687,279	-	-	-	-	2,687,279
Employer contributions	668,862	-	-	-	-	668,862
Other operating	756,767	-	-	-	114,846	871,613
Claims and awards	-	-	-	-	2,965	2,965
Distributions to subrecipients	-	-	-	-	1,010,000	1,010,000

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

	General	Federal Grants and Programs	Victims' Assistance	Veterans' Affairs	Other Governmental Funds	Totals
<b>Expenditures (Continued)</b>						
Continuum of Care:						
Personal services	1,587,615	-	-	-	1,856,174	3,443,789
Employer contributions	427,306	-	-	-	366,659	793,965
Other operating	184,303	-	-	-	515,560	699,863
Case Services	1,625,268	-	-	-	1,109,462	2,734,730
Foster Care:						
Personal services	390,053	-	-	-	411,656	801,709
Employer contributions	104,274	-	-	-	101,427	205,701
Other operating	319,743	-	-	-	153,001	472,744
Guardian Ad Litem:						
Personal services	139,306	-	-	-	1,313,213	1,452,519
Employer contributions	40,934	-	-	-	329,822	370,756
Other operating	67,021	-	-	-	567,057	634,078
Developmental Disabilities:						
Personal services	45,467	-	-	-	-	45,467
Employer contributions	12,179	-	-	-	-	12,179
Other operating	9,582	-	-	-	-	9,582
Distributions to subrecipients	54,176	-	-	-	-	54,176

SOUTH CAROLINA GOVERNOR'S OFFICE

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

	General	Federal Grants and Programs	Victims' Assistance	Veterans' Affairs	Other Governmental Funds	Totals
<b>Expenditures (Continued)</b>						
Ombudsman/Citizen Services:						
Personal services	186,260	-	-	-	95,635	281,895
Employer contributions	50,115	-	-	-	18,766	68,881
Other operating	19,470	-	-	-	13,027	32,497
Victims' Assistance:						
Personal services	-	-	879,870	-	-	879,870
Employer contributions	-	-	268,476	-	-	268,476
Other operating	281,298	-	831,925	-	-	1,113,223
Claims and awards	-	-	10,076,741	-	-	10,076,741
Distributions to subrecipients	-	-	775,000	-	-	775,000
Veterans' Affairs:						
Personal services	617,839	-	-	-	-	617,839
Employer contributions	167,683	-	-	-	-	167,683
Other operating	31,361	-	-	292	-	31,653
Distributions to subrecipients	329,978	-	-	11,000	-	340,978
POW commission	1,365	-	-	-	-	1,365
Children Affairs:						
Personal services	62,537	-	-	-	-	62,537
Employer contributions	17,321	-	-	-	-	17,321
Other operating	10,118	-	-	-	-	10,118

SOUTH CAROLINA GOVERNOR'S OFFICE

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

	General	Federal Grants and Programs	Victims' Assistance	Veterans' Affairs	Other Governmental Funds	Totals
<b>Expenditures (Continued)</b>						
Small and Minority Business:						
Personal services	92,653	-	-	-	-	92,653
Employer contributions	27,226	-	-	-	-	27,226
Other operating	15,417	-	-	-	-	15,417
Commission on Women:						
Other operating	7,026	-	-	-	-	7,026
Economic Opportunity:						
Case services	-	-	-	-	511,991	511,991
Mansion donations	-	-	-	-	-	-
Total expenditures	11,037,802	29,221,067	12,832,012	11,292	8,491,261	61,593,434
Excess (deficit) of revenue over (under) expenditures	89,731	188,430	398,835	289,768	59,932	1,026,696
<b>Other Financing Uses</b>						
Recoveries of indirect costs	-	(119,837)	-	-	-	(119,837)
Total other financing uses	-	(119,837)	-	-	-	(119,837)
Excess (deficit) of revenue over (under) expenditures and other financing uses	89,731	68,593	398,835	289,768	59,932	906,859
Fund balances, beginning of year	698,314	(81,106)	3,145,016	(476,777)	1,217,108	4,502,555
Fund balances, end of year	<u>\$ 788,045</u>	<u>\$ (12,513)</u>	<u>\$ 3,543,851</u>	<u>\$ (187,009)</u>	<u>\$ 1,277,040</u>	<u>\$ 5,409,414</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

Reconciliation to the statement of activities:

Net change in fund balances-total governmental funds	\$	906,859
---	----	---------

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

Capital outlays are reported as expenditures  
in governmental funds. However, in the  
statement of activities, the cost of capital  
assets is allocated over their estimated  
useful lives as depreciation expense.

In the current period, these amounts are:

Additions to furniture and equipment	11,066	
Depreciation expense	(14,040)	
	<hr/>	
Excess of capital outlay over depreciation expense		(2,974)

Some items reported in the statement of  
activities do not require the uses of  
current financial resources and therefore,  
are not reported as expenditures in  
governmental funds. These activities  
consist of:

Increase in compensated absences		(66,208)
		<hr/>
Change in net assets of governmental activities	\$	<u><u>837,677</u></u>

*See accompanying notes.*

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

**1. Summary of Significant Accounting Policies**

Reporting Entity

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

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

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

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

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

(CONTINUED)

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

##### Reporting Entity (Continued)

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

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. Under the Office of Executive Policy and Programs, they are divided into three divisions, Division of Administrative Services, Division of Children Services and Division of Constituent Services (see *Note 14*). Each of these divisions is made of offices, which provide the services mentioned above. The governor appoints directors of the state cabinet agencies. These agencies are not included in the reporting entity.

##### Government Wide and Fund Financial Statements

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Government Wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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



SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

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

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

The government reports the following major governmental funds:

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Budget Policy

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

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

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

The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate state government for the current fiscal year. Any unexpended State General Fund appropriations lapse to the General Fund of the State on July 31 unless specific authorization is given to carry over the funds to the ensuing fiscal year. Appropriations carried forward for a specific purpose are reported as reserved fund balance. Proviso 72.30 of the 2004/2005 Appropriations Act authorized departments and agencies to carry forward unspent State General Fund appropriations (excluding those for which it has separate carry forward authority) up to ten percent of its original General Fund budget. This carry forward is shown as a designated fund balance.

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

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

## SOUTH CAROLINA GOVERNOR’S OFFICE

### NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

##### Budget Policy (Continued)

The state maintains budgetary control at the line-item level of expenditure within each program of each department or agency. All general fund expenditures are budgeted. The Governor’s Office processes its disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General’s Office. Disbursement vouchers can only be processed if there is enough cash and appropriations exist. The level of legal control is reported in a publication of the State Comptroller General’s Office titled *A Detailed Report of Appropriations and Expenditures*. Transfers of funds may be approved by the State Budget and Control Board (the “Board”) under its authority or by the agency as set forth in Appropriation Act Proviso 72.10 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses of the Board and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Per Proviso 56DD.15 of the 2004-05 Appropriations Act, all other provisions of the law not withstanding, the Office of Executive Policy and Programs section, the Executive Control of State section, and Mansion and Grounds section, shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

##### Cash and Cash Equivalents

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Cash and Cash Equivalents (Continued)

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

For credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 12*.

Federal Revenue Receivable

Federal grant revenue receivable represents expenditures incurred through June 30, 2005, for federal programs/projects but not reimbursed until fiscal year 2006.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2005, for Special Revenue Fund programs/projects but not reimbursed until fiscal year 2006.

Capital Assets

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

SOUTH CAROLINA GOVERNOR’S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Compensated Absences

Compensated absences are recorded as short and long-term liabilities account group. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency’s work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Governor’s Office calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. Changes in compensated absences are shown in *Note 10*.

Net Assets/Fund Balances

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

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

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Net Assets/Fund Balances (Continued)

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

Interfund Transactions-Fund Financial Statements

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which the Office may retain. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The remitted cost reimbursements amounted to \$119,837 in fiscal year 2005. The Office did not retain any indirect cost recoveries in fiscal year 2005.

Estimates

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**2. State Appropriations**

The 2004-2005 original appropriations are the base budget amounts for the Mansion and Grounds, the Executive Control of State, and the Office of Executive Policy and Program budgetary units and are presented in the General Funds column of Sections 56D, 56A, and 56C, respectively, of Part IA of the Appropriations Act. The following are reconciliations of adjusted appropriations to the appropriations revenue and General Fund legal basis budget amounts on the Combined Statement of Revenue, Expenditures and Changes in Fund Balances- All Governmental Fund Types and the Combined Statement of Expenditures - Budget and Actual - All Budgeted Funds.

	<b>Mansions and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
Original appropriation	\$ 369,784	\$ 1,180,992	\$ 8,809,134	\$ 10,359,910
Base Pay Increase (Part IV of 2005 Appropriations Act):	10,706	31,846	176,511	219,063
Revised appropriations - legal basis	380,490	1,212,838	8,985,645	10,578,973
Net adjustments to accrual basis: Personal services and employer contributions	20,025	85,691	442,844	548,560
Revenue from state appropriations	<u>\$ 400,515</u>	<u>\$ 1,298,529</u>	<u>\$ 9,428,489</u>	<u>\$ 11,127,533</u>
Revised appropriations	380,490	1,212,838	8,985,645	10,578,973
Brought-forward appropriations from fiscal year ended June 30, 2004: (a) Implementing federal programs- match	19,580	25,656	690,911	736,147
Legal basis appropriation available for 2005 expenditures	<u>\$ 400,070</u>	<u>\$ 1,238,494</u>	<u>\$ 9,676,556</u>	<u>\$ 11,315,120</u>



SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**2. State Appropriations (Continued)**

	<b>Mansions and Grounds</b>	<b>Executive Control of State</b>	<b>Executive Policy and Programs</b>	<b>Totals</b>
Approved carry forward of appropriated funds to fiscal year 2005				
(b) Implementing federal programs- match	\$ 8,438	\$ 22,665	\$ 822,561	\$ 853,664
Less accounts payable			(65,619)	(65,619)
Total carry forward accrual basis	<u>\$ 8,438</u>	<u>\$ 22,665</u>	<u>\$ 756,942</u>	<u>\$ 788,045</u>

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2004 for expenditures in fiscal year 2005 and to carry forward unspent appropriations from fiscal year 2005 to expenditure in fiscal year 2006. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

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

(b) 2005 Appropriations Act, Proviso 56DD.1

Annual fiscal year 2005 appropriations of \$853,664 for implementing federal programs approved for carry forward to fiscal year 2006 for expenditure for the same purposes. There were no remaining unspent appropriations authorized for carry forward to be reported as unreserved, designated fund balance of the Office's General Fund.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Operating Leases**

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Office of General Services. During fiscal year 2005, total payments under this lease were \$436,449. The Governor's Office leases automobiles from the State Budget and Control Board-State Fleet Management on a year-to-year basis. During fiscal year 2005, total payments under this lease were \$151,560. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2005 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$395,238 in fiscal year 2005. These leases expire between 2005 and 2008. Some leases contain renewal options and scheduled rent increases. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2005 and subsequent years. When these leases expire, they will be replaced with similar leases for like real property.

The Governor's Office also has noncancelable operating leases for various copying and data processing equipment. During fiscal year 2005, total payments were \$76,928, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2005 and subsequent years. These leases expire between 2005 and 2008 and do not contain renewal options or escalation clauses. When these leases expire, they will be replaced with similar leases for equipment.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2005, are:

**Year Ending June 30,**

2006	\$ 297,108
2007	228,863
2008	180,388
2009	80,627
2010	82,844
2011-2012	99,373
	<u>\$ 969,203</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**4. Due From State General Fund**

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

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

**5. Changes In Capital Assets**

A summary of changes in capital assets follows:

	Balance July 1, 2004	Additions	Deletions and Retirements	Balance June 30, 2005
Furniture and equipment:				
Office of Executive Policy and Programs	\$ 176,700	\$ 11,066	\$ (5,916)	\$ 181,850
Accumulated depreciation:				
Office of Executive Policy and Programs	(147,997)	(14,040)	5,916	(156,121)
Capital assets, net of accumulated depreciation	<u>\$ 28,703</u>	<u>\$ (2,974)</u>	<u>\$ -</u>	<u>\$ 25,729</u>

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

#### **6. Pension Plan**

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

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

The majority of employees of the Governor's Office are covered by a retirement plan through The South Carolina Retirement System (SCRS) a cost-sharing multiple-employer defined benefit public employee retirement system which provides annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees. Generally all state employees are required to participate in and contribute to SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 Code of Laws of South Carolina.. The responsibility for administration of the systems is assigned by law to the State Budget & Control Board. The Governor's Office has no fiduciary responsibility or further liability for the retirement plan beyond the current contributions.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**6. Pension Plan (Continued)**

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

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

The Governor's Office total covered payroll for the year ended June 30, 2005, was \$11,563,099. Employees are required to contribute 6% of compensation to the plan. Under Section 9-1-480 of the Code, the Governor's Office's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. The required contributions and the percentages of that amount for the past three years are as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Employer contribution rate	7.55%	7.55%	7.55%
Employer contribution	\$ 873,014	\$ 572,555	\$ 633,490
Employee contributions	\$ 693,786	\$ 455,010	\$ 503,436

In addition, the Governor's Office paid \$11,563 for group life insurance benefits, which is .10% of covered payroll. In accordance with provisions of the 99/00 State Appropriations Act effective July 1, 1999, a surcharge of 1.95% of covered payroll was added to the employer pension contribution rate applicable to State and Public School entities covered by the State Health Insurance Program. Effective January 1, 2000, the surcharge was increased to 2.16%. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established employer pension contribution rates. The surcharge is remitted to the Retirement Systems for distribution to the State Budget and Control Board-Office of Insurance Services (administering agency for the State health insurance plan).

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

#### **6. Pension Plan (Continued)**

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

#### **7. Post-Employment and Other Employee Benefits**

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

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

The Office recorded employer contributions expenditures within the applicable administrative expenditure categories for these insurance benefits for active employees of \$2,925,148 for the year ended June 30, 2005. As discussed in *Note 11*, the Office paid \$12,413, for the year ended June 30, 2005, applicable to the surcharge included with the employer contributions for retirement benefits.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**7. Post-Employment and Other Employee Benefits (Continued)**

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

**8. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Governor's Office have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**9. Risk Management**

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

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

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

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

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

1. Theft of, damage to, or destruction of assets;
2. Building contents and equipment;
3. Motor vehicles;
4. Torts.



SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**9. Risk Management (Continued)**

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

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

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

**10. Changes In Long-Term Obligations**

Changes in long-term obligations for the year ended June 30, 2005, were as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Within</u> <u>One Year</u>
Accrued compensated absences:					
Mansion and Grounds	\$ 26,128	\$ 16,705	\$ (28,297)	\$ 14,536	\$ 10,854
Executive Control of					
State	53,655	54,544	(23,135)	85,064	51,436
Office of Executive					
Policy and Programs	767,882	1,222,208	(1,175,817)	814,273	509,085
Total accrued compensated absences	<u>847,665</u>	<u>1,293,457</u>	<u>(1,227,249)</u>	<u>913,873</u>	<u>571,375</u>
Notes Payable:					
Veterans Cemetery	500,000	-	-	500,000	500,000
	<u>\$ 1,347,665</u>	<u>\$ 2,586,914</u>	<u>\$ (1,227,249)</u>	<u>\$ 1,413,873</u>	<u>\$ 1,071,375</u>

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

#### **11. Transactions With State Entities**

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

Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; legal services from the Attorney General; interagency mail services from the State Budget and Control Board; and record storage from the Department of Archives and History. The Governor's Office also leases space, equipment and autos from state agencies. See *Note 5* for further disclosure. The Governor's Office paid the State Budget and Control Board \$138,826 for telephone services, \$210 for general repair, \$2,470 for motorized vehicle repair, \$437,669 for rent, \$78,290 for computer services, \$27,398 for printing services, \$50 for photocopy services, \$5,491 for postage and freight, \$3,532 for travel, \$12,413 for retirement and \$9,288 for office supplies. The Governor's Office paid the Deaf and Blind School \$12,073 for professional services. Also, \$111,519 was paid to the State Budget and Control Board Office of Insurance Services for insurance. The State Accident Fund was paid \$62,217 for Worker's Compensation Insurance. The Office paid the Department of Corrections \$317 for office supplies.

The Governor's Office paid the University of South Carolina, the South Carolina Department of Disabilities and Special Needs, \$20,500, and \$5,013, respectively, for contractual services. The Governor's Office paid the South Carolina Department of Health and Human Services, the South Carolina Department of Mental Health and the South Carolina Department of Disabilities and Special Needs \$1,805,000, \$6,730 and \$17,232 respectively, for case services. Also, \$47,812 and \$2,546 were paid to the Medical University of South Carolina and the South Carolina Department of Mental Health for indemnity claims and awards. The State Budget and Control Board was also paid \$151,560 for leased vehicles. The Governor's Office paid \$12,329 for salaries and benefits to Clemson University.

The Governor's Office paid \$911,567, and \$2,405 to the State Budget and Control Board for health insurance and electricity, respectively. The Corrections Department was paid \$5,920 for printing. The Governor's Office allocated \$54,176 to the Department of Disability and Special Needs, respectively. There was approximately \$4,768 paid to other state agencies for miscellaneous expenditures.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**12. Cash Deposits**

All cash deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. At June 30, 2005, the Fund had no deposits with financial institutions. The Fund had cash in the amount of \$7,757,075 held by the State Treasurer as of June 30, 2005.

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

	<b>Financial Statements</b>	<b>Footnotes</b>
Deposits with State Treasurer's Office	\$ -	\$ 7,757,075
Cash and cash equivalents	7,757,075	-
Total	<u>\$ 7,757,075</u>	<u>\$ 7,757,075</u>

**13. Litigation and Contingencies**

At June 30, 2005, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties which arose in the normal course of business.

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

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

SOUTH CAROLINA GOVERNOR’S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**14. Program Classification**

The following is how the Office is structured as of fiscal year 2005.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**15. Reserved Fund Balances/Deficits**

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

Continuum of Care:	
Case management Medicaid	\$ 388,237
Patient Fees	7,596
Total Continuum of Care	<u>395,833</u>
Foster Care:	
Local review board	<u>32,612</u>
Victims' Assistance:	
Trust fund for claims	<u>3,543,851</u>
Economic Opportunity:	
Project share	<u>85,635</u>
Guardian Ad Litem:	
Operations	302,060
Contributions	8,570
Total Guardian Ad-Litem	<u>310,630</u>
Ombudsman/Citizen Services:	
Operations	<u>37,056</u>
Veterans Affairs:	
Veterans Cemetery	(477,018)
Military Family Relief Fund	290,009
Total Veterans Affairs	<u>(187,009)</u>
Finance and Administration:	
Miscellaneous Revenue	3,100
Increase Enforcement Collections	412,174
Total Finance and Administration	<u>415,274</u>
Federal Program:	
Dual employment	(9,270)
Ombudsman	(12,677)
Health and Human Services	(22,271)
Victims assistance	(8,490)
Economic opportunity	40,195
Total federal programs	<u>(12,513)</u>
Total reserved fund balance	<u><u>\$ 4,621,369</u></u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**15. Reserved Fund Balances/Deficits (Continued)**

The deficit in the Veterans Affairs Department is caused due to the fact that the Office has not received any funding for the Veterans Cemetery as of June 30, 2005.

The deficit in the Federal Programs Department is caused due to differences in the timing of expenditures and the notice of grant awards.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ 885,187	\$ 877,867	\$ 877,867	\$ -
Other Operating Expenses	105,965	129,394	129,394	-
Total Administration	991,152	1,007,261	1,007,261	-
II. Employee Benefits	189,840	208,568	208,568	-
Total Executive Control of the State	1,180,992	1,215,829	1,215,829	-
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	1,128,566	1,237,613	1,237,613	-
Other Operating Expenses	366,156	379,229	379,229	-
Special Items:				
Implementing Federal Programs	44,283	25,902	25,902	-
National Governor's Association	50,003	50,000	50,000	-
Southern Growth Policies	26,312	26,312	26,312	-
Southern States Energy Board	31,372	31,372	31,372	-
Poet Laureate	-	2,294	2,294	-
Appalachian Regional Commission	36,000	37,000	37,000	-
Southern Governors Association	7,110	7,110	7,110	-
Total Administrative Services	1,689,802	1,796,832	1,796,832	-
II. Children Services				
Personal Service	2,220,236	2,007,302	2,007,302	-
Other Operating Expenses	371,683	275,189	275,189	-
Case Services	1,388,010	1,595,300	1,595,300	-
Special Items:				
Children's Case Resolution System	97,541	8,057	8,057	-
Protection and Advocacy	297,938	297,938	297,938	-
Total Children Services	4,375,408	4,183,786	4,183,786	-
III. Constituents Services				
Personal Service	854,743	875,299	875,299	-
Other Operating Expenses	89,249	82,856	82,856	-
Special Items:				
Victims Rights	98,244	95,989	95,989	-
Victims Witness	181,117	181,117	181,117	-
SC Van	41,892	41,892	41,892	-
POW Commission	3,924	1,365	1,365	-

(CONTINUED)



SOUTH CAROLINA GOVERNOR'S OFFICE

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

(CONTINUED)

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance from Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Distributions to Subdivisions:				
Aid County - Restricted	318,635	329,978	329,978	-
Aid Other State Agencies	54,176	54,176	54,176	-
Total Constituents Services	1,641,980	1,662,672	1,662,672	-
IV. Employee Benefits	1,101,944	1,210,704	1,210,704	-
Total Office of Executive Policy & Programs	8,809,134	8,853,994	8,853,994	
Mansion and Grounds				
I. Administration				
Personal Service	235,434	251,301	251,301	-
Other Operating Expenses	56,903	43,703	43,703	-
Total Administration	292,337	295,004	295,004	-
II. Employee Benefits	77,447	96,628	96,628	-
Total Grounds and Mansion	369,784	391,632	391,632	-
Total Expenditures	<u>\$ 10,359,910</u>	<u>\$ 10,461,455</u>	<u>\$ 10,461,455</u>	<u>\$ -</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Other Operating Expenses	\$ 92,257	\$ 92,257	\$ 50,174	\$ 42,083
Total Administration	92,257	92,257	50,174	42,083
Total Executive Control of the State	92,257	92,257	50,174	42,083
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	-	178,161	-	178,161
Special Items:				
National Governors Association	-	50,000	48,600	1,400
Appalachian Regional Commission	-	13,100	10,000	3,100
Total Administrative Services	-	241,261	58,600	182,661
II. Children Services				
Personal Service	3,264,196	4,318,444	2,766,256	1,552,188
Other Operating Expenses	3,328,312	2,548,312	1,073,955	1,474,357
Case Services	1,500,000	1,500,000	1,109,705	390,295
Total Children Services	8,092,508	8,366,756	4,949,916	3,416,840
III. Constituents Services				
Personal Service	1,176,336	1,176,336	954,316	222,020
Other Operating Expenses	9,576,893	9,212,457	7,205,810	2,006,647
Case Services	-	300,000	4,000	296,000
Distributions to Subdivisions:				
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	1,010,000	1,000,000	125,000	875,000
Allocation Other Entities	550,476	590,476	511,991	78,485
Total Constituents Services	12,963,705	12,929,269	9,451,117	3,478,152
IV. Employee Benefits	1,336,954	1,662,706	1,085,149	577,557
Total Office of Executive Policy and Programs	22,393,167	23,199,992	15,544,782	7,655,210
Mansion and Grounds				
I. Administration				
Other Operating Expenses	29,602	29,602	-	29,602
Total Administration	29,602	29,602	-	29,602
Total Grounds and Mansion	29,602	29,602	-	29,602
Total Expenditures	\$ 22,515,026	\$ 23,321,851	\$ 15,594,956	\$ 7,726,895

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2005

**Note 1. Budgetary Funds:**

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

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

*Total Funds.* The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

**Note 2. Legal Level of Budgetary Control:**

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2004-2005 fiscal year has approximately 2,600 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

(CONTINUED)

**Note 3. Basis of Budgeting:**

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

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

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

**Note 4. Reconciliation of Budget to GAAP Reporting Differences:**

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

## OTHER FINANCIAL INFORMATION

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS -

GENERAL FUND BY DIVISION

JUNE 30, 2005

	<b>Mansions and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 8,438	\$ 23,204	\$ 1,631,705	\$ 1,663,347
Due from the State General Fund	20,025	85,691	442,844	548,560
Total assets	<u>\$ 28,463</u>	<u>\$ 108,895</u>	<u>\$ 2,074,549</u>	<u>\$ 2,211,907</u>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ -	\$ 538	\$ 874,764	\$ 875,302
Accrued payroll and other liabilities	20,025	85,691	442,844	548,560
Total liabilities	<u>20,025</u>	<u>86,229</u>	<u>1,317,608</u>	<u>1,423,862</u>
Fund equity:				
Fund balances				
Reserved for restricted purposes to be carried forward	8,438	22,666	756,941	788,045
Total fund equity	<u>8,438</u>	<u>22,666</u>	<u>756,941</u>	<u>788,045</u>
Total liabilities and fund equity	<u>\$ 28,463</u>	<u>\$ 108,895</u>	<u>\$ 2,074,549</u>	<u>\$ 2,211,907</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2005

	<b>Mansions and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Revenues</b>				
State appropriations	\$ 400,515	\$ 1,298,529	\$ 9,428,489	\$ 11,127,533
Total revenue	400,515	1,298,529	9,428,489	11,127,533
<b>Expenditures</b>				
Finance and Administration:				
Personal services	271,326	963,558	1,452,395	2,687,279
Employer contributions	96,628	208,568	363,666	668,862
Other operating	43,703	129,394	583,670	756,767
Continuum of Care:				
Personal services	-	-	1,587,615	1,587,615
Employer contributions	-	-	427,306	427,306
Other operating	-	-	184,303	184,303
Case services	-	-	1,625,268	1,625,268
Foster Care:				
Personal services	-	-	390,053	390,053
Employer contributions	-	-	104,274	104,274
Other operating	-	-	319,743	319,743
Guardian Ad Litem:				
Personal services	-	-	139,306	139,306
Employer contributions	-	-	40,934	40,934
Other operating	-	-	67,021	67,021
Developmental Disabilities:				
Personal services	-	-	45,467	45,467
Employer contributions	-	-	12,179	12,179
Other operating	-	-	9,582	9,582
Distributions to subdivisions	-	-	54,176	54,176
Ombudsman/Citizen Services:				
Personal services	-	-	186,260	186,260
Employer contributions	-	-	50,115	50,115
Other operating	-	-	19,470	19,470

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2005

	<b>Mansions and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Expenditures (Continued)</b>				
Victims' Assistance:				
Other operating	-	-	281,298	281,298
Veterans' Affairs:	-	-	617,839	617,839
Employer contributions	-	-	167,683	167,683
Other operating	-	-	31,361	31,361
Distributions to subdivisions	-	-	329,978	329,978
POW commission	-	-	1,365	1,365
Children Affairs:				
Personal services	-	-	62,537	62,537
Employer contributions	-	-	17,321	17,321
Other operating	-	-	10,118	10,118
Small and Minority Business:				
Personal services	-	-	92,653	92,653
Employer contributions	-	-	27,226	27,226
Other operating	-	-	15,417	15,417
Commission on Women				
Other operating	-	-	7,026	7,026
Total expenditures	411,657	1,301,520	9,324,625	11,037,802
Excess of revenue over (under)				
expenditures	(11,142)	(2,991)	103,864	89,731
Fund balances, beginning of year	19,580	25,656	653,078	698,314
Fund balances, end of year	<u>\$ 8,438</u>	<u>\$ 22,665</u>	<u>\$ 756,942</u>	<u>\$ 788,045</u>



SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS -  
SPECIAL REVENUE FUNDS

JUNE 30, 2005

	Finance and Adminis- tration	Continuum of Care	Foster Care	Guardian Ad Litem	Ombudsman/ Citizen Services	Economic Opportunity	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 427,904	\$ 552,202	\$ 13,033	\$ 194,390	\$ 44,074	\$ 85,635	\$ 1,317,238
Federal grant revenue receivable		-		-	-	-	-
Accounts receivable		115,999		232,022	-	-	417,180
Total assets	\$ 440,123	\$ 668,201	\$ 6,849,973	\$ 426,412	\$ 44,074	\$ 85,635	\$ 1,734,418
	12,219						
	-						
<b>Liabilities and Fund Equity</b>							
Liabilities:							
Accounts payable	\$ 24,849	\$ 163,486	\$ 2,170	\$ 26,688	\$ 167	\$ -	\$ 217,360
Accrued payroll and related liabilities	-	108,882	35,191	89,094	6,851	-	240,018
Notes payable	-	-	-	-	-	-	-
Deposits held for clients	-	-	-	-	-	-	-
Total liabilities	24,849	272,368	37,361	115,782	7,018	-	457,378
Fund balances	415,274	395,833	32,612	310,630	37,056	85,635	1,277,040
Total liabilities and fund equity	\$ 440,123	\$ 668,201	\$ 69,973	\$ 426,412	\$ 44,074	\$ 85,635	\$ 1,734,418

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS -  
SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2005

	Finance and Adminis- tration	Continuum of Care	Foster Care	Guardian Ad Litem	Ombudsman/ Citizen Services	Economic Opportunity	Total
<b>Revenue</b>							
Federal grants and programs	\$ -	\$ -	\$ -	\$ 161,413	\$ -	\$ -	\$ 161,413
Other government grants and contributions	1,012,950	-	-	2,161,072	145,719	-	4,642,387
Medicaid reimbursements	150	-	583,463	-	-	-	3,220,373
Victim restitution	-	925,415	-	-	-	-	-
Fines & forfeitures	527,020	2,636,760	-	-	-	397,231	527,020
Total revenue	1,540,120	3,562,175	583,463	2,322,485	145,719	397,231	8,551,193
<b>Expenditures</b>							
Administration:							-
Personal services	-	1,856,174	411,656	1,313,213	95,635	-	3,676,678
Employer contributions	-	366,659	101,427	329,822	18,766	-	816,674
Other operating	114,846	515,560	153,001	567,057	13,027	-	1,363,491
Special items:							
Case services	-	1,109,462	-	-	-	-	1,109,462
Claims and awards	2,965	-	-	-	-	-	2,965
Distributions to subrecipients:							
Allocations to other state agencies	1,010,000	-	-	-	-	511,991	1,521,991
Total expenditures	1,127,811	3,847,855	666,084	2,210,092	127,428	511,991	8,491,261
Excess of revenue over (under) expenditures	412,309	(285,680)	(82,621)	112,393	18,291	(114,760)	59,932
Fund balances, beginning of year	2,965	681,513	115,233	198,237	18,765	200,395	1,217,108
Fund balances, end of year	\$ 415,274	\$ 395,833	\$ 32,612	\$ 310,630	\$ 37,056	\$ 85,635	\$ 1,277,040

## **SINGLE AUDIT SECTION**

SOUTH CAROLINA GOVERNOR'S OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
<b>U. S. Department of Education</b>		
Rehabilitation Services-Client Assistance Program	84.161	151,491
<b>U. S. Department of Energy</b>		
Weatherization Assistance for Low Income Persons	81.042	1,817,846
<b>U. S. Department of Justice</b>		
Crime Victim Compensation	16.576	4,116,002
Crime Victim Compensation	16.582	90
<b>U. S. Department of Health and Human Services</b>		
*Low Income Home Energy Assistance	93.568	11,143,482
*Community Services Block Grant	93.569	9,499,653
Community Services Block Grant		
Discretionary Awards-Community Food and Nutrition	93.571	59,461
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,140,829

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
<b>U. S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	1,360,547
<b>U. S. Department of Public Safety</b>		
Crime Victim Ombudsman	16.575	113,467
<b>Pass through from:</b>		
<b>S.C. Department of Social Services</b>		
Foster Care-Title IV-E	93.658	437,461
Guardian Ad Litem-Temporary		
Assistance for Needy Families	93.558	89,887
Grand Total		<u>\$ 29,930,216</u>

*The accompanying notes are an integral part of this schedule.*

*\*Denotes major program*

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

**Note 1. Basis of Presentation:**

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

**Note 2. Subrecipients:**

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

Federal Grantor/ Program Title	Federal CFDA Number	Amount Provided to Subrecipients
<b>U. S. Department of Health and Human Services</b>		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 815,345
Community Services Block Grant	93.569	8,942,021
Low Income Home Energy Assistance	93.568	10,686,440
Community Services Block Grant Discretionary Awards- Community Food and Nutrition	93.571	59,461
<b>U. S. Department of Energy</b>		
Weatherization Assistance for Low Income Persons	81.042	1,631,092
<b>U. S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	1,272,832
Total provided to subrecipients		<u>\$ 23,407,191</u>

**DELOACH & WILLIAMSON, L.L.P.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
1401 MAIN STREET, SUITE 660  
COLUMBIA, SOUTH CAROLINA 29201

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

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

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

We have audited the financial statements of the South Carolina Governor's Office as of and for the year ended June 30, 2005, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

*Rebeck & Williamson, L.L.P.*

December 15, 2005



DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660  
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

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

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

Compliance

We have audited the compliance of the South Carolina Governor's Office with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The South Carolina Governor's Office's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina Governor's Office management. Our responsibility is to express an opinion on the South Carolina Governor's Office compliance with those requirements based on our audit.

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

In our opinion, the South Carolina Governor's Office complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weakness.

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

*DeLoach & Williamson, L.L.P.*

December 15, 2005

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

JUNE 30, 2005

**Summary of Auditors' Results:**

1. The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Governor's Office
2. No material weaknesses relating to the financial statements are reported on the Report on Internal Control Over Financial Reporting and Compliance and other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*.
3. No reportable conditions in internal control over financial reporting were identified by the audit of the financial statements.
4. No instances of noncompliance material to the financial statements were identified by the audit of the financial statements
5. No material weaknesses in internal controls over major programs were identified by the audit of the compliance for major programs.
6. No reportable conditions in internal control over major programs were identified by the audit of compliance over major programs.
7. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
8. The audit did not disclose a finding that the auditor is required to report under Section 510(a) of OMB Circular A-133
9. Major federal programs:
  - 1) Community Services Block Grant – CFDA# 93.569
  - 2) Low Income Home Energy Assistance – CFDA # 93.568
10. The threshold for distinguishing between Type A and Type B Programs was \$897,907.
11. South Carolina Governor's Office did not qualify to be a low risk auditee.

**Financial Statement Findings:**

None reported

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

**Federal Awards Findings and Questioned Costs:**

None reported

**Status of Prior Year Findings:**

During the year management implemented controls that they believe have helped to alleviate the prior year findings. We did not discover any further problems during the current year.