

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2000

SOUTH CAROLINA GOVERNOR’S OFFICE

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AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2000

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SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

— CONTINUED —

	Governmental Fund Types		Account Groups		Totals (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-Term Debt	
Liabilities, Fund Equity, and Other Credits (Continued)					
Fund equity and other credits:					
Investment in general fixed assets	—	—	1,799,990	—	1,799,990
Fund balances:					
Reserved for various restricted purposes (Note 17)	—	14,671,516	—	—	14,671,516
Reserved for restricted appropriations to be carried forward (Note 3)	925,002	—	—	—	925,002
Unreserved, designated for appropriations to be carried forward (Note 3)	975,917	—	—	—	975,917
Total fund equity and other credits	<u>1,900,919</u>	<u>14,671,516</u>	<u>1,799,990</u>	<u>—</u>	<u>18,372,425</u>
Total liabilities, fund equity and other credits	<u>\$ 3,221,401</u>	<u>\$ 18,040,116</u>	<u>\$ 1,799,990</u>	<u>\$ 950,185</u>	<u>\$ 24,011,692</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary Of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

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.

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 14*.

Cash Held by Fiscal Agent

The account shown in the financial statements "cash held by fiscal agent" represents amounts transferred to a fiscal agent that has not yet been disbursed by that agent. At June 30, 2000, these funds amounted to \$454,399 and were a part of the Tobacco Loss Assistance Program of the Special Revenue Fund.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary Of Significant Accounting Policies (Continued)

General Fixed Assets

Fixed assets are recorded in the general fixed assets account group at cost or estimated historical cost. The Office's policy is to only capitalize fixed assets with a cost of \$1,000 or more and an estimated useful life of 24 months or greater. Purchases of general office furniture, fixtures and equipment are recorded as expenditures in the governmental funds and simultaneously capitalized at cost as additions in general fixed assets accounting records. In many cases, costs for fixed assets purchased in prior years were estimated on the basis of price levels at the time of acquisition as well as costs of similar assets. Permanent improvement expenditures represent buildings that upon completion are transferred from the state to other entities, and, therefore, are not capitalized. Donated assets and those transferred in from other divisions and agencies as a result of restructuring are recorded at cost or estimated historical cost of the predecessor agency. Assets donated by non-state/private entities are recorded at fair market value at the time of donation. In accordance with government generally accepted account principles, the Governor's Office does not record depreciation expense or accumulated depreciation in the general fixed assets account group.

Compensated Absences

Compensated absences are recorded in the general long-term debt 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 12*.

Fund Balance

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)

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

identify the portion of the fund balance 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 equity is computed as total fund equity less reserved amounts. The undesignated fund balance is unreserved fund equity, which has not been designated by management.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary Of Significant Accounting Policies (Continued)

Interfund Transactions

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.

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the Office. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The remitted cost reimbursements amounted to \$144,276 in fiscal year 2000. The Office did not retain any indirect cost recoveries in fiscal year 2000.

Federal Revenue Receivable and Deferred Federal Revenue

Federal grant revenue receivable represents expenditures incurred through June 30, 2000, for federal programs/projects but not reimbursed until fiscal year 2001. Deferred federal grant revenue represents cash received for federal programs through June 30, 2000, but not expended until fiscal year 2001.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. 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 —

1. Summary Of Significant Accounting Policies (Continued)

New GASB Pronouncement

On June 30, 1999, Governmental Accounting Standards Board (GASB) issued Statement Number 34. This statement will change the reporting model of governmental entities. The Office plans to follow the implementation schedule for the State.

The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Phase 1 governments with total annual revenues of \$100 million or more should implement this Statement in financial statements for periods beginning after June 15, 2001. The State and the Office will implement this guidance for fiscal year 2002.

2. Budgetary Reporting Basis

Financial statements prepared on the legally enacted basis differ from GAAP basis statements. All of the Office's general fund resources and most of the funds and accounts in its Special Revenue Fund are included in the total funds authorized by the General Assembly. Indirect cost remittances to the State General Fund that are shown as other financing uses are unbudgeted. The Combined Statement of Expenditures-Budget and Actual-All Budgeted Funds presented on pages 8-10 present all funds for which a legal budget was enacted.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Budgetary Reporting Basis (Continued)

The following schedule reconciles the differences:

	Financial Statement Fund Type		Budgetary Fund Category	
	General	Special Revenue	General Fund	Other
Expenditures on GAAP basis	\$ 14,359,583	\$ 58,467,499	\$ —	\$ —
Fund reclassification:				
State appropriations	(14,359,583)	—	14,359,583	—
Federal programs	—	(23,415,777)	—	23,415,777
Other budgeted funds	—	(17,632,203)	—	17,632,203
Unbudgeted accounts:				
Continuum of Care:				
Client trust funds	—	(153)	—	—
Legacy Trust Fund	—	(550,000)	—	—
Tobacco Loss Assistance Program	—	(16,767,601)	—	—
Education:				
Allocation to State Agency	—	(101,765)	—	—
Net accruals:				
Personal services	—	—	(49,907)	(139,476)
Employer contributions	—	—	(12,189)	(25,937)
Expenditures on legal basis	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,297,487</u>	<u>\$ 40,882,567</u>

In March 2000, \$17,836,348 was transferred to the State by the United States Department of Agriculture under the Tobacco Loss Assistance Program (TLAP). TLAP is a government-to-government program created to use Commodity Credit Corporation funds; it makes payments to States on behalf of persons who suffered a reduction in the quantity of tobacco quota or acreage allotted to farms from the 1998 crop year to the 1999 crop year. Interest in the amount of \$90,970 has been earned, collected and distributed to eligible tobacco growers as claims and awards expenditures. Additional interest of \$47,214 on TLAP funds was earned in fiscal year

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NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2000 and was receivable at year-end. At June 30, 2000, the Office had a balance of \$1,068,767, which had not been claimed. This balance has been classified as deferred revenue. \$705,318 of the TLAP Funds are held by the State Treasurers' Office in a trust account for the Office. The remaining TLAP Funds (\$454,399) are held by a fiscal agent.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. State Appropriations

The 1999-2000 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.

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Total
Original appropriation	\$ 262,056	\$ 1,713,480	\$ 11,658,460	\$ 13,633,996
Supplemental Appropriations (Part IV of 2000 Appropriation Act):				
Governor's School at College of Charleston	—	—	100,000	100,000
Protection & Advocacy for People with Disabilities	—	—	125,400	125,400
Veterans' Affairs-Korean War Memorial	—	—	200,000	200,000
Appropriation allocations by State Budget & Control Board mandated by proviso:				
Employee pay plan and related employer contributions (Proviso 63C.10)	4,962	41,176	197,938	244,076
SC State Budget and Control Board 401k contribution (Provisio 72.48)	—	590	4,599	5,189
Appropriations transferred to:				
SC State Budgeted Control Board for Human Reserve functions of the Office	—	—	(136,683)	(136,683)
Appropriations transferred from:				
SC State Budget and Control Board and Senate for funding of one full time employee	—	—	76,918	76,918

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NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Appropriations transferred within Governor's Office	41,600	124,800	(166,400)	—
Revised appropriations-legal basis	308,618	1,880,046	12,060,232	14,248,896
Net adjustments to modified accrual basis:				
Personal services	2,537	11,009	36,361	49,907
Employer contributions	572	3,646	7,971	12,189
Revenue from state appropriations	<u>\$ 311,727</u>	<u>\$ 1,894,701</u>	<u>\$ 12,104,564</u>	<u>\$ 14,310,992</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. State Appropriations (Continued)

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Total
Revised appropriations	\$ 308,618	\$ 1,880,046	\$ 12,060,232	\$ 14,248,896
Brought-forward appropriations from fiscal year ended June 30, 1999:				
(f) Implementing federal programs-match	—	—	223,865	223,865
(d) Continuum of Care case services	—	—	880,137	880,137
(e) Mining Council	—	—	137	137
(g) Unspent appropriations	19,086	20,877	774,255	814,218
(i) Veteran's Roster	—	—	37,843	37,843
Legal basis appropriation available for 2000 expenditures	<u>\$ 327,704</u>	<u>\$ 1,900,923</u>	<u>\$ 13,976,469</u>	<u>\$ 16,205,096</u>
Approved carry forward of appropriated funds to fiscal year 2001:				
(a) Implementing federal programs-match	\$ —	\$ —	\$ 299,852	\$ 299,852
(b) Continuum of Care case services	—	—	610,048	610,048
(c) Mining Council	—	—	1,836	1,836
(j) Veteran's Roster	—	—	13,266	13,266
(h) Unspent appropriations	15,507	104,689	860,984	981,180
	15,507	104,689	1,785,986	1,906,182
Less accounts payable	—	—	(5,263)	(5,263)
Total carry forward accrual basis	<u>\$ 15,507</u>	<u>\$ 104,689</u>	<u>\$ 1,780,723</u>	<u>\$ 1,900,919</u>
Reserved for restricted appropriations				925,002
Unreserved, designated for appropriations				975,917
				<u>\$ 1,900,919</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. State Appropriations (Continued)

The following cite the authorities for the Office to bring forward appropriations from fiscal year 1999 for expenditures in fiscal year 2000 and to carry forward unspent appropriations from fiscal year 2000 to expenditure in fiscal year 2001. The restricted purposes are noted in the captions for the referenced amounts on page 22 and page 23.

- (a) 2001 Appropriations Act, Proviso 56DD.1
- (b) 2001 Appropriations Act, Proviso 56DD.23
- (c) 2001 Appropriations Act, Proviso 56DD.2
- (d) 2000 Appropriations Act, Proviso 56DD.24
- (e) 2000 Appropriations Act, Proviso 56DD. 2
- (f) 2000 Appropriations Act, Proviso 56DD.1
- (g) 2000 Appropriations Act, Proviso 72.48
- (h) 2001 Appropriations Act, Proviso 72.44
- (i) 2000 Appropriations Act, Proviso 56DD.32
- (j) 2001 Appropriations Act, Proviso 56DD.31

Annual fiscal year 2000 appropriations of \$925,002 for implementing federal programs, Continuum of Care services, the Mining Council and the Veteran's Roster are approved for carry forward to fiscal year 2001 for expenditure for the same purposes. The remaining unspent appropriations authorized for carry forward are reported as unreserved, designated fund balance of the Office's General Fund. The amount reported as unreserved fund designated balance for the carry forward is net of accounts payable.

In fiscal year 2000, the South Carolina State Budget and Control Board and Senate transferred \$41,918 and \$35,000, respectively, to the Office for funding of one full time employee.

On April 11, 2000, the South Carolina State Budget and Control Board transferred \$5,189 to the Governor's Office for contributions to the 401k accounts of state employees as provided by Proviso 72.48 under the 2000 Appropriations Act.

In fiscal year 1999, the human resource function of the Office was transferred to the South Carolina State Budget and Control Board. On July 27, 1999, the 1999/2000 State General Fund appropriation of \$133,320 for salary and fringe benefits and \$3,363 for base pay increase for

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

human resource personnel was transferred to the South Carolina State Budget and Control Board.

Salary and fringe-human resources	\$ 133,320
Base pay increase	<u>3,363</u>
	<u>\$ 136,683</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

4. Interfund Receivables And Payables

At June 30, 2000, the Victims' Assistance Special Revenue Fund owed \$100,883 to the Guardian Ad Litem Special Revenue Fund and \$8,382 to the Ombudsman Special Revenue Fund for funding for payroll expenditures. The Guardian Ad Litem and Ombudsman/Citizens Services Funds will be reimbursed for these short term loans from funds received in fiscal year 2001.

5. 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 2000, total payments under this lease were \$453,149. 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 2000, total payments under this lease were \$211,643. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2001 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$548,350 in fiscal year 2000. These leases expire between 2001 and 2005. 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 2001 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 2000, total payments were \$141,373, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2001 and subsequent years. These leases expire between 2001 and 2005 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, 2000, are:

Years Ending June 30,

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2001	\$ 332,282
2002	228,761
2003	167,135
2004	117,144
2005	53,395
	<u>\$ 898,717</u>

6. 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 3* for detail of the net revenue adjustment by division.

7. Changes In General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>General Fixed Assets July 1, 1999</u>	<u>Additions</u>	<u>Deletions and Retirements</u>	<u>General Fixed Assets June 30, 2000</u>
Furniture and equipment				
Executive Control of State	\$ 34,648	\$ 7,341	\$ —	\$ 41,989
Office of Executive Policy and Programs	<u>1,511,105</u>	<u>296,442</u>	<u>(49,546)</u>	<u>1,758,001</u>
Total	<u>\$ 1,545,753</u>	<u>\$ 303,783</u>	<u>\$ (49,546)</u>	<u>\$ 1,799,990</u>

The Office capitalizes qualifying equipment with a unit cost of \$1,000 or more and a life of two years or more.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. Pension Plan

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 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. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. Pension Plan (Continued)

The Governor's Office total covered payroll for the year ended June 30, 2000, was \$10,112,564. 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, 2000</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Employer contribution rate	7.55%	7.55%	7.55%
Employer contributions	\$ 763,499	\$ 727,327	\$ 701,532
Employee contributions	\$ 606,754	\$ 578,008	\$ 557,507

In addition, the Governor's office paid \$15,339 for group life insurance benefits, which is .15% 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).

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.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. Pension Plan (Continued)

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).

9. 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 \$713,583 for the year ended June 30, 2000. As discussed in *Note 8*, the Office paid \$197,195 for the year ended June 30, 2000, applicable to the surcharge included with the employer contributions for retirement benefits.

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NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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 —

9. 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.

10. 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 (this requirement is not required for employees earning less than \$20,000).

In April, 2000, the State contributed \$118 to the 401(k) accounts of each eligible State employee.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

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11. 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;

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Building contents and equipment;
3. Motor vehicles;
4. Torts.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

11. 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.

12. Changes In General Long-Term Debt

A summary of changes in general long-term debt follows:

	General Long-Term Debt June 30, 1999	Net Additions and (Retirements)	General Long-Term Debt June 30, 2000
Accrued compensated absences:			
Mansion and Grounds	\$ 19,314	\$ (3,698)	\$ 15,616
Executive Control of State	54,128	62,512	116,640
Office of Executive Policy and Programs	682,187	135,742	817,929
Total	<u>\$ 755,629</u>	<u>\$ 194,556</u>	<u>\$ 950,185</u>

Changes in accrued compensated absences are recorded at net because gross additions and retirement amounts are not available.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. 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 \$211,203 for telephone services, \$340,027 for computer services, \$39,239 for printing services, and \$36,452 for office supplies. The Governor's Office paid the South Carolina Department of Corrections \$46,775 for office supplies and paid the University of South Carolina \$3,650 for data processing services. Also, \$54,084 was paid to the State Budget and Control Board Office of Insurance Services for insurance. The State Accident Fund was paid \$42,819 for Worker's Compensation Insurance and the Employment Security Commission was paid \$23,790 for Unemployment Insurance.

The Governor's Office received Title XIX allocations from the Department of Health and Human Services which have been reported as Medicaid reimbursements. The Continuum of Care received \$2,027,012 in Title XIX allocations. A receivable of \$253,849 for unreimbursed expenditures has been recorded as due from other state agencies in various special revenue funds, primarily the Continuum of Care which reports a \$243,113 receivable.

The Governor's Office paid the University of South Carolina, the South Carolina Department of Disabilities and Special Needs, the South Carolina Department of Social Services, the South Carolina Department of Mental Health, the South Carolina Department of Vocational Rehabilitation and the South Carolina School for the Deaf and Blind \$201,407, \$6,543, \$57,102, \$80,494, \$3,500, and \$28,042, respectively for contractual services. The Governor's Office paid the South Carolina Department of Health and Human Services and the South Carolina Department of Disabilities and Special Needs \$1,500,000 and \$2,367, respectively, for case services. Also, \$206,046 and \$4,454 was paid to the Medical University of South Carolina and the South Carolina Department of Mental Health, respectively, for victim assistance claims and awards.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

The Office of Continuum of Care of the Governor's Office received \$3,801,093 of EIA money from the South Carolina State Department of Education, including a receivable of \$639,008 recorded as due from other state agencies. Continuum of Care also received \$400,000 in revenue for patient care and maintenance from the Department of Mental Health which is recorded as non-federal grants and contributions.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. Transactions With State Entities (Continued)

The Office of Guardian Ad Litem received \$1,042,351 from the South Carolina State Department of Social Services for training of volunteers to be guardians.

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.

On July 27, 1999, the 1999/2000 State General Fund appropriation of \$133,320 for salary and fringe benefits and \$3,363 for base pay increase for human resource personnel was transferred to the South Carolina State Budget and Control Board. (See *Note 3*)

On August 9, 1999, a private donation of \$101,765 for the First Steps program was transferred from the Office to the South Carolina State Department of Education. This donation was received by the Office on April 22, 1999 and was reported in the private donation revenue account of the Education Division.

14. Cash Deposits

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

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

	Balance Sheet	Footnotes
Deposits with State Treasurer's Office	\$ —	\$ 18,119,808
Cash and cash equivalents	18,119,808	—
Cash held by fiscal agent	454,399	—
Other deposits	—	454,399

SOUTH CAROLINA GOVERNOR’S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Totals	<u>\$ 18,574,207</u>	<u>\$ 18,574,207</u>
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SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

14. Cash Deposits (Continued)

Deposits held by State Treasurer-State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2000, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits-Other deposits represent amounts on deposit at year-end with a fiscal agent. These funds are held in an account in the name of the Tobacco Loss Assistance Program. At June 30, 2000, the other deposits of the Office were as follows:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Other deposits	<u>\$ 100,000</u>	<u>\$ —</u>	<u>\$ 708,191</u>	<u>\$ 808,191</u>	<u>\$ 454,399</u>

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

15. Litigation And Contingencies

At June 30, 2000, 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.

Among these legal proceedings are the following:

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

The Office was named as a defendant in one suit with another State agency. A final judgement in the amount of approximately \$610,000 has been entered in this case. Insurance coverage has been preliminarily denied. It is unclear at June 30, 2000, what portion, if any, of the above amount is to be paid by the Office. Legal counsel has advised that the ultimate payor of the funds has not yet been determined. Consequently, no liability is currently reflected on the financial statements of the Office.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

15. Litigation And Contingencies (Continued)

Although any litigation has an element of uncertainty, it is management's opinion that the outcome of the 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 the specific case described above because the loss in excess of insurance coverage, if any, for which an unfavorable outcome is probable or reasonably possible is not reasonably estimable. For other suits/claims the risk of material loss in excess of insurance coverage is remote and 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.

16. Program Classification Changes

In January 1999, the Office realigned their organizational functional structure. As of July 1, 1999, the accounting area of the Office realigned their accounts to reflect the change in the organizational structure. The budget, however, did not reflect this change until July 1, 2000. The following is how the Office is structured as of fiscal year 2000.

Division of Administrative Services	Division of Children Services	Division of Constituent Services
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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Office of Intergovernmental
Affairs

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NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

17. Reserved Fund Balances

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

Continuum of Care:	
Patient care and maintenance programs	\$ 59,689
Case management Medicaid	2,994,295
Total Continuum of Care	<u>3,053,984</u>
 Foster Care:	
Local review board	<u>46,570</u>
 Victims' Assistance:	
Trust fund for claims	<u>10,945,504</u>
 Economic Opportunity:	
Donations	<u>113,932</u>
 Guardian Ad Litem:	
Operations	<u>103,922</u>
 Health and Human Services:	
Caring for Tomorrow's Children	<u>231,954</u>
 Ombudsman/Citizen Services:	
Operations	<u>13,860</u>
 Veterans' Affairs:	
World War II Monument Donations	<u>1,000</u>
 Finance and Administration:	
Legacy Trust Fund	<u>22,626</u>
 Federal Program:	

SOUTH CAROLINA GOVERNOR’S OFFICE

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Tobacco Loss Assistance Program	<u>138,164</u>
Total reserved fund balance	<u><u>\$ 14,671,516</u></u>

OTHER FINANCIAL INFORMATION