

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

State of South Carolina



Office of the State Auditor

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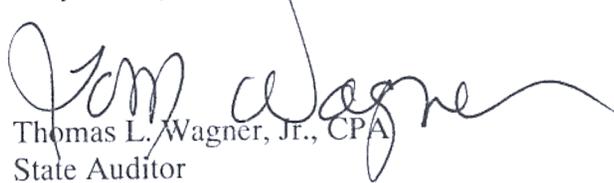
July 29, 2003

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

This report on the audit of the financial statements of the South Carolina Department of Public Safety for the fiscal year ended June 30, 2002, was issued by Rogers & Laban, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1 to the financial statements, the Department's financial statements are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Department. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2002, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental fund activities, each major fund and the aggregate remaining fund information of the Department as of June 30, 2002 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 is 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 Department taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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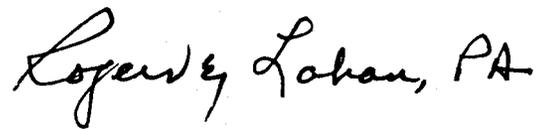
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As discussed in Note 1 to the basic financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus as of July 1, 2001. This results in a change in the format and content of the financial statements as detailed in Note 1. Also, as of July 1, 2001, the Department changed its capitalization policy and made an adjustment to remove those capital assets that were less than the new policy capitalization level; and it also discovered errors in the application of accounting principles regarding unrecorded accounts receivables for sales for goods and services/cost recoveries and other revenues and the recorded portion of revenues from a \$9,400,000 capital reserve fund appropriation that was authorized during fiscal year 2001 and made applicable adjustments. The required adjustments and corrections of these errors were accounted for as prior period adjustments and are detailed in Note 17.

In accordance with Government Auditing Standards, we have also issued our report dated April 25, 2003, 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.

A handwritten signature in black ink that reads "Roger W. Lohan, PA". The signature is written in a cursive style with a large, prominent initial 'R'.

April 25, 2003

# Management's Discussion and Analysis

In this section, we provide a narrative overview and analysis of the Agency's financial performance for the fiscal year ended June 30, 2002. Please read it together with the Department's financial statements, which follow this section.

The Governmental Accounting Standards Board's *new financial reporting model* required the Department to present its financial statements differently this year. Because the new model required significant changes in the content and structure of or financial statements, much of the financial information is not easily comparable to prior years. However, in future years, we will be able to provide comparisons that will go further toward explaining the Department's financial position and results of operations.

## I. Overview of the Financial Statements

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

### Entity-wide Financial Statements

The entity-wide statements are new to governmental reporting as a result of the new financial reporting model. They present a longer-term view of the Department's finances as a whole, using accrual-basis accounting - the same accounting methods that most businesses use.

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

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

The entity-wide statements can report three different kinds of activities: governmental activities, business-type activities, and component units.

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

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

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

## Fund Financial Statements

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

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

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

## Notes to the Financial Statements

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

## Supplementary Information

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

## II. Entity-wide Financial Analysis

Exhibits 1 and 2 summarize the Department's overall financial position and results of operations for the past year based on the information included in the entity-wide financial statements. Because this is our first year for reporting the Department's finances as a whole using accrual-basis accounting, prior year comparative information is not available. However, beginning next year comparative data will be available and we will report it in this section of our comprehensive annual financial report.

### Exhibit 1

<b>Assets</b>	
Current and Other	\$84,312,888
Capital	<u>69,991,712</u>
Total assets	<u>154,304,600</u>
<b>Liabilities</b>	
Long-term liabilities	60,025,733
Other liabilities	<u>8,796,844</u>
Total liabilities	<u>68,822,577</u>
<b>Net Assets</b>	
Invested in capital assets, net of debt	69,991,712
Restricted	23,873,310
Unrestricted	<u>(8,382,999)</u>
Total net assets	<u>\$85,482,023</u>
Total liabilities and net assets	<u>\$154,304,600</u>

## Net Assets

As noted earlier, net assets may serve, over time, as a useful indicator of the Department's financial position. For the 2001-2002 accounting year, the Department's net assets totaled \$85.482 million. However, all of these net assets were invested in capital assets (such as buildings, or equipment) or were restricted for specific purposes. The remaining unrestricted net assets reported a deficit balance of \$8,382,999.

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

Restricted net assets make up 28% of the Department's net assets. These resources are available for future spending but are subject to restrictions based on classification. The largest net assets restricted balance belongs to Division of Motor Vehicles, a division of the Department of Public Safety hereafter referred to as DMV at \$6,550,120.

The overall negative unrestricted net assets balance resulted primarily from the accrual for compensated absences and related benefits.

### Exhibit 2 Statement of Activities – Condensed

Program Revenues	
Charges for service	\$ 47,686,870
Operating grants and contributions	37,146,398
Capital grants and contributions	4,363,174
General Revenues	
State appropriations	113,932,704
Taxes and fees	116,757,686
Other	<u>5,428,398</u>
Total Revenues	<u>325,315,230</u>
Expenses	
Public Safety programs	<u>(193,115,617)</u>
Excess before transfers and remittances	<u>132,199,613</u>
Transfers and remittances	
General Fund of the State	(53,601,686)
SC Transportation Infrastructure Bank	(54,334,665)
Other	<u>( 8,936,758)</u>
	<u>(116,891,109)</u>
Increase (decrease)	<u>15,308,504</u>
Net assets, beginning of year	<u>70,173,519</u>
Net assets, end of year	<u>\$85,482,023</u>

### Changes in Net Assets

The Agency's net assets increased 21% or \$15.308 million over the prior year (as restated).

### Governmental Activities

Governmental activities' revenues were derived mostly from state appropriations (48.25%), and taxes and fees (49.45%). The remaining 2.3% came from capital reserve appropriations, interest income, and gain on sale of assets.

Governmental activities' expenses were associated with providing the various services the Department give to the citizens of the state. Program expenses prior to program revenues was \$193.115 million. The major cost centers were Highway Patrol and the Division of Motor Vehicles with \$69.792 million and \$55.551 million respectively. The next two highest outflows of funds was \$54.335 million transfer to the State Infrastructure Bank and \$53.602 million remittance to the General Fund of the State.

### III. Financial Analysis of the Department's Funds

The Department of Public Safety uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. When the Department adopted the new governmental financial reporting model, the focus changed from reporting funds by type to reporting major funds.

#### Governmental Funds

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

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of \$29.363 million, an increase of \$7.560 million in comparison with the prior year. \$5.490 million constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the operating fund of the Department. It includes the majority of resources for the Department such as state appropriations and license fees and fines. It also includes all of the uses of funds, which are categorized by program area. The other uses of funds include the remittance back to the State's General Fund. The majority of the increase in fund balance was the result of an increase in funds collected by DMV.

### IV. Budgetary General Fund Highlights

The Department experienced several significant budgetary cuts during the year. The majority of the decreases occurred in the state appropriation areas. The original budget was \$126 million and the final budgetary amount was only \$114 million; a decrease of 10%. The Department was able to use special authority the legislature gave to all state agencies to relieve the budget problems. The Department was able to use its restricted funds to cover some of the budget shortfall. The law enforcement areas were allowed to deficit spend and a hiring freeze was also put in place to overcome the budget shortfalls. For more information on the budget shortages see the discussion in the economic factors section below.

### V. Capital Assets and Debt Administration

#### Capital Assets

At the end of the 2001-2002 accounting year, the Department had \$69.992 million invested in capital assets. This represents a net increase (including additions and reductions) of \$6.062 million, or an increase of 9.48% over the previous accounting year. The majority of the increase incurred in the construction in progress for DMV's Project Phoenix computer system was placed in service in August of 2002.

#### Long-term Debt

As of the end of the fiscal year in 2002, the Department's only noticeable debt other than accrued compensation and fringe benefits was an obligation with the Department of Transportation dating back to the creation of the Department of Public Safety. However, the Department had legislative authority to collect funds to repay a debt obligation for the purchase or construction of a Department headquarter facility. For more information on this situation see the discussion in the economic factors section below.

## VI. Economic Factors

### State Appropriated Budget Decreases

At the beginning of FY 2001 – 2002, the Department's original appropriated budget was \$126,445,198. An initial reduction of approximately 8.5% reduced the appropriated base budget to \$115,720,758. Additions from the State Employee Pay Plan and Employer Contributions, as well as \$110,000 to Bureau of Protective Services for security of the Hunley submarine, increased the Department's appropriated budget to \$119,045,817. A 4% mid-year budget reduction of \$4,761,833 reduced the Department's appropriated budget once again to a balance of \$113,932,704.

For FY 2001 – 2002, the Budget and Control Board granted the Department \$2,602,154 in deficit spending authority, which DPS allocated in the following manner: \$1,641,906 to Highway Patrol, \$150,000 to State Transport Police, \$150,000 Bureau of Protective Services and \$660,248 to Employer Contributions.

### DMV Miscellaneous Revenues

As a result of new and/or amended legislation, the Division of Motor Vehicles, a division of the Department, has been granted the authority to retain and expend certain revenues generated through its operations. The amount of revenues retained by the DMV in FY 2001 – 2002 was \$23,991,115 compared to \$7,817,116 in FY 2000 – 2001. The increases in this revenue stream were primarily from sale of information, reinstatement fees and expedited title transactions.

### DPS Headquarters Acquisition

During FY 2001 – 2002, the Department was actively negotiating with several entities to purchase a facility that would allow for consolidation of all headquarters operations and elimination of numerous leases. S.C. Code of Laws § 56-3-840 allows the Department to collect and retain delinquent registration and license penalties revenue to be used for issuing revenue bonds or for entering into a lease purchase agreement for a headquarters facility. This section requires all monies collected, not to exceed the actual revenues collected in FY 1999 – 2000, must be maintained in a separate account. In FY 2001 – 2002, the Department deposited \$4,363,175 into this account from penalty revenue.

## VII. Requests for Information

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2002**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 53,895,484
Receivables:	
Federal government	12,903,976
General Fund of the State	8,173,333
State agencies	1,221,587
Other entities	975,851
Accrued interest receivable	95,953
Inventories	<u>7,046,704</u>
Total current assets	<u>84,312,888</u>
Non-current assets:	
Capital assets, net of accumulated depreciation	<u>69,991,712</u>
Total non-current assets	<u>69,991,712</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 154,304,600</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**STATEMENT OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2002**

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Current liabilities:

Accounts payable	\$	16,359,173
Intergovernmental payables:		
Due to State agencies		14,326,435
Contract retainages payable		23,632
Accrued payroll and related liabilities		9,419,025
Due to General Fund of the State		9,730,099
Accrued compensated absences and related benefits		5,076,000
Deferred revenue		5,091,369
		60,025,733
Total current liabilities		60,025,733

Noncurrent liabilities:

Notes payable to State Agency		2,049,819
Intergovernmental payables:		
Due to State Agency		238,347
Accrued compensated absences and related benefits, net of current portion		6,508,678
		8,796,844
Total noncurrent liabilities		8,796,844

**TOTAL LIABILITIES**

**68,822,577**

**Net assets:**

Invested in capital assets

69,991,712

Restricted:

Capital projects		5,620,642
Security services		317,208
Hall of Fame		128,263
Court fines		1,579,222
Confiscated funds		280,391
Size and weight stabilization program		990,253
Weigh stations		4,761,330
Victim restitution		1,225,068
Motor carrier fees - other programs		518,522
Building fund		796,813
Division of motor vehicles		6,550,123
Miscellaneous revenues		279,591
International fuel tax operations		421,382
Videotaping equipment		205,764
Financial responsibility		96,826
Drug awareness and resistance education fund		101,912
Unrestricted (deficit)		(8,382,999)

**TOTAL NET ASSETS**

**85,482,023**

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 154,304,600**

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Public Safety	\$ 193,115,617	\$ 47,686,870	\$ 37,146,398	\$ 4,363,174	\$ (103,919,175)
General revenues:					
State appropriations					113,932,704
Capital reserve fund appropriations					4,981,768
Allocations from other State agencies					317,801
Taxes and fees					116,757,686
Interest/investment income					76,049
Gains on sales of capital assets					52,780
Total general revenues					236,118,788
Transfers and remittances:					
General Fund of the State					(53,601,686)
Counties					(620,560)
South Carolina Transportation Infrastructure Bank					(54,334,665)
South Carolina Department of Transportation					(7,823,150)
South Carolina Department of Education					(179,022)
South Carolina Department of Insurance					(230,300)
South Carolina Department of Revenue					(101,726)
Total transfers and remittances					(116,891,109)
Change in net assets					15,308,504
Net assets - Beginning, as restated					70,173,519
Net assets - Ending					\$ 85,482,023

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**BALANCE SHEETS - GOVERNMENTAL FUNDS**  
**JUNE 30, 2002**

<b>ASSETS</b>	General Fund	Federal Fund	Capital Projects Fund	Totals
Current assets:				
Cash and cash equivalents	\$ 45,570,063	\$ 2,928,793	\$ 5,396,628	\$ 53,895,484
Receivables:				
Federal government		12,903,976		12,903,976
State agencies	1,221,587			1,221,587
Other	975,851			975,851
General Fund of the State	8,173,333			8,173,333
Accrued interest receivable	15,577	80,376		95,953
Inventories	7,046,704			7,046,704
<b>TOTAL ASSETS</b>	<b>\$ 63,003,115</b>	<b>\$ 15,913,145</b>	<b>\$ 5,396,628</b>	<b>\$ 84,312,888</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	\$ 6,992,148	\$ 9,173,199	\$ 193,826	\$ 16,359,173
Intergovernmental payables:				
Due to State agencies	12,931,811	1,394,624		14,326,435
Contract retainages payable			23,632	23,632
Accrued payroll and related liabilities	9,165,072	253,953		9,419,025
Due to General Fund of the State	9,730,099			9,730,099
Deferred revenue		5,091,369		5,091,369
<b>TOTAL LIABILITIES</b>	<b>38,819,130</b>	<b>15,913,145</b>	<b>217,458</b>	<b>54,949,733</b>
<b>Fund Balances:</b>				
Reserved:				
Capital projects	441,472		5,179,170	5,620,642
Security services	317,208			317,208
Hall of Fame	128,263			128,263
Court fines	1,579,222			1,579,222
Confiscated funds	280,391			280,391
Size and weight stabilization program	990,253			990,253
Weigh station	4,761,330			4,761,330
Victim restitution	1,225,068			1,225,068
Motor carrier fees - other programs	518,522			518,522
Building fund	796,813			796,813
Division of motor vehicles	6,550,123			6,550,123
Miscellaneous revenues	279,591			279,591
International fuel tax operations	421,382			421,382
Videotaping equipment	205,764			205,764
Financial responsibility	96,826			96,826
Drug awareness and resistance education fund	101,912			101,912
Unreserved	5,489,845			5,489,845
<b>TOTAL FUND BALANCES</b>	<b>24,183,985</b>	<b>-</b>	<b>5,179,170</b>	<b>29,363,155</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 63,003,115</b>	<b>\$ 15,913,145</b>	<b>\$ 5,396,628</b>	<b>\$ 84,312,888</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)**  
**JUNE 30, 2002**

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances - governmental funds		\$ 29,363,155
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Amounts reported for governmental activities in the statement of net assets are different because:

Liabilities are not due and payable in the current year, therefore, are not reported in the governmental funds:

Notes payable - State Agency	2,049,819	
Intergovernmental payable:		
Due to State agency	238,347	
Accrued compensated absences and related benefits	11,584,678	(13,872,844)

Assets are capitalized and depreciated in statement of net assets and charged to expenditures in the governmental fund:

Capital assets, net of accumulated depreciation		69,991,712
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Net assets		\$ 85,482,023
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**See accompanying Notes to Financial Statements.**

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2002**

	General Fund	Federal Fund	Capital Projects Fund	Totals
<b>REVENUES:</b>				
State appropriations	\$ 113,932,704		\$	\$ 113,932,704
Capital reserve fund appropriations	4,981,768			4,981,768
Driver and motor vehicle licenses, fees, taxes and penalties	114,302,233			114,302,233
Federal grants		36,695,203		36,695,203
Court fines and assessments	11,523,380			11,523,380
Sales of goods and services/cost recoveries	26,234,223			26,234,223
Financial responsibility	4,029,715			4,029,715
Vehicle size and weight violation fines	1,444,740			1,444,740
Victim restitution	530,394			530,394
IOTA operating	1,356,229			1,356,229
Drug confiscation's	477,546			477,546
Motor carrier registrations and fees	2,455,453			2,455,453
Building fund	4,363,174			4,363,174
Interest/investment income	76,049	451,195		527,244
Allocations from State agencies	317,801			317,801
Other sources	2,090,643			2,090,643
<b>TOTAL REVENUES</b>	<b>288,116,052</b>	<b>37,146,398</b>		<b>325,262,450</b>
<b>EXPENDITURES:</b>				
General administration	17,007,090		61,037	17,068,127
Bureau of Protective Services	3,817,973	4,180		3,822,153
Highway Patrol	69,343,401	260,394	188,577	69,792,372
Transport Police	9,027,909	2,611,906	118,862	11,758,677
Criminal Justice Academy	8,194,695	899,964	1,028,819	10,123,478
Hall of Fame	145,150			145,150
Department of Motor Vehicles	55,283,298	90,135	177,630	55,551,063
Office of Safety and Grant Programs	58,598	32,665,706		32,724,304
Allocations to counties	620,560			620,560
Allocations to other State Agencies:				
SC Transportation Infrastructure Bank	54,334,665			54,334,665
SC Department of Transportation	7,823,150			7,823,150
SC Department of Education	179,022			179,022
SC Department of Revenue	101,726			101,726
SC Department of Insurance	230,300			230,300
Special items:				
Computer upgrade	5,768			5,768
Total quality management	3,856			3,856
Hunley security	109,985			109,985
<b>TOTAL EXPENDITURES</b>	<b>226,287,146</b>	<b>36,532,285</b>	<b>1,574,925</b>	<b>264,394,356</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>61,828,906</b>	<b>614,113</b>	<b>(1,574,925)</b>	<b>60,868,094</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers	(584,116)		584,116	-
Remitted to the General Fund of the State	(51,239,444)			(51,239,444)
Indirect cost remitted to the General Fund of the State		(614,113)		(614,113)
Transfer to the General Fund of the State	(1,748,129)			(1,748,129)
Proceeds from sales of capital assets	293,303			293,303
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(53,278,386)</b>	<b>(614,113)</b>	<b>584,116</b>	<b>(53,308,383)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>8,550,520</b>	<b>- 0 -</b>	<b>(990,809)</b>	<b>7,559,711</b>
<b>FUND BALANCES, BEGINNING, as restated</b>	<b>15,633,465</b>	<b>- 0 -</b>	<b>6,169,979</b>	<b>21,803,444</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 24,183,985</b>	<b>\$ -</b>	<b>\$ 5,179,170</b>	<b>\$ 29,363,155</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES:**

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental funds	\$ 7,559,711
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets reported as expenditures in the governmental funds, but recorded as capital assets in the statement of net assets	16,097,313
Depreciation of capital assets reported as an expense in the statement of activities	(9,794,568)
Decrease in accrued compensated absences reported as a reduction of expenses in the statement of activities	1,686,571
Cost less accumulated depreciation of capital assets disposed of during the year reported as a reduction of gains on sales of capital assets in the statement of activities	<u>(240,523)</u>
<b>INCREASE IN NET ASSETS</b>	<b><u><u>\$15,308,504</u></u></b>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2002**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 1,599,841
Accounts receivable	320,120
Other assets	<u>15,000</u>
Total assets	<u><u>\$ 1,934,961</u></u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 710,234
Amounts held for others:	
Financial responsibility and driver records	1,027,501
Self-insurance	165,000
Evidence	500
International fuel tax	26,826
Dual employment	<u>4,900</u>
	<u>1,224,727</u>
Total liabilities	<u><u>\$ 1,934,961</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

**Reporting Entity**

The Department was created by the Government Restructuring Act of 1993, which became effective on July 1, 1993. The cabinet level agency consists of a combination of the former South Carolina Highway Patrol and Motor Vehicle Records of the former South Carolina Department of Highways & Public Transportation, Public Service Commission Safety Enforcement, Law Enforcement Training Council, Law Enforcement Hall of Fame, and the Public Safety Office of the Governor's Office. The Department is responsible for the statewide law enforcement training, management of various statewide law enforcement agencies, educational efforts for crime, drug and safety programs, as well as administration of certain grants and agency funds directly related to the above mentioned items. In addition, pursuant to Executive Order 95-45, effective January 1, 1996, the Motor Vehicle Division of the Department of Revenue was transferred to the Department to consolidate the Motor Vehicle Division's functions under one department. The responsibilities and activities transferred include the driver and vehicle services functions of the Motor Vehicle Division. The Executive Director of the Department is a member of the Governor's Cabinet. The financial activities of the Department are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. An organization other than primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The primary government is the State of South Carolina and the Department is reported as part of the State's primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Department has determined it has no component units.

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

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

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

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position, results of operations and note disclosures of only that portion of the State of South Carolina that are attributable to the Department reporting entity as defined above.

#### **Government-Wide And Fund Financial Statements**

The financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. In accordance with Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Association elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

These government-wide financial statements are prepared in accordance with GASB statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" and No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus". The primary impact of using these Statements involved the presentation of the Department-wide financial statements on an accrual basis of accounting and the inclusion of a "Statement of Activities", which demonstrates the degree to which the direct expenses of the Department's programs are offset by program revenues, and a "Management's Discussion and Analysis".

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

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

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

#### Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of federal monies (federal funds), and the acquisition, construction, and maintenance of general fixed assets (capital project funds). Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is the fund balance.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

**General Fund** – The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual State appropriation as approved by the General Assembly, driver and motor vehicle licenses, fees and penalties, truck registration fees and penalties, sales taxes as casual motor vehicle sales, financial responsibility, court fines and assessments, motor carrier registrations and fees, uninsured motorist coverage, drug confiscations, victim restitution, charges for services, sales of goods, including listings and labels by the Motor Vehicle Division, and cost reimbursements for the costs of productions, purchase, handling, mailing of documents, publications, records and data sets, and sale of photography, electronically stored information or digitized images. The revenues are used for general ongoing governmental services such as administration, law enforcement, driver and motor vehicle services, crime prevention training, general public crime education, law enforcement training as well as safety program development.

Under Section 56 of the State Code of Laws, as amended, the Department collects fees and other charges for driver licenses and motor vehicle registrations. 80% of these revenues are remitted to the General Fund of the State except those revenues authorized to be retained by the Department. Effective July 1, 2000, twenty percent (20%) of revenues from motor vehicle fees collected pursuant to Section 56-3-910 by the Department are remitted pursuant to the South Carolina Department of Transportation for fiscal year 2001 and thereafter. Also, pursuant to Sections 56-3-660 and 56-3-670 of the South Carolina Code of Laws one hundred percent (100%) of the revenues collected by the Department for truck registration fees are remitted to the South Carolina Transportation Infrastructure Bank.

The following Provisos of the 2001-2002 Appropriations Act specific to the Department allow it to use, retain and carryover certain revenues that are earmarked for specific purposes:

- 36.2           Miscellaneous Revenues

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

- 36.5           Cost Recovery Fees

The fees for the purpose of processing and/or recovering the costs of the production, purchase, handling and mailing of documents, publications, records and data sets.

- 36.6           License Fees

The fees collected to recover the costs of the production, purchase, handling and mailing of documents, publications, records and data sets, for the purpose of supplying and maintaining video cameras in law enforcement vehicles used for traffic enforcement and the issuance of the alcohol restricted licenses, hire, train and equip the highway patrol and defray the expenses of the Division of Motor Vehicles.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

- 36.7            Motor Carrier Registration Fees  
  
The fees collected were authorized to build and renovate weigh stations. Proviso 36.7 of the 2001-02 Appropriations Act authorizes all unexpected funds from prior years collected under this Proviso to be retained and carried forward by the Department.
  
- 36.8            Witness Fees  
  
The Department is authorized to charge witness fees for each Highway Patrol trooper that testifies in civil matters which do not involve the State as a party in interest. This fee shall be charged in addition to any court prescribed payment due as compensation or reimbursement for judicial appearances and deposited into a designated revenue account. The Department is authorized to receive, expend, retain, and carry-forward these funds.
  
- 36.11          License Information  
  
The revenues generated from the sale of certain information relating to motor vehicle records for the purpose of funding computer needs and modernization/improvement of the Division of Motor Vehicles.
  
- 36.13          Emergency Expenditure Reimbursements  
  
The Department is authorized to collect, expend, retain, and carry-forward all funds received from other state or federal agencies in the current fiscal year as reimbursement of expenditures incurred in the current or prior fiscal year when personnel and equipment are mobilized and expenses incurred due to an emergency.
  
- 36.14          Private Detective Fees  
  
The Department is authorized to receive, expend, retain, and carry-forward all funds transmitted from the South Carolina Law Enforcement Division (SLED) related to fees charged and collected from license and registration fees for private detective businesses, private security businesses and companies which provide private security on their own premises. The funds are to be used in the Bureau of Protective Services Program to provide security for State agencies and the Capitol Complex.
  
- 36.15          Expedited Documents and Records  
  
The Department may collect a surcharge, not to exceed \$20 per document, in addition to normal fees to expedite copies of documents and records at the option of the requesting party. Funds derived from these sources shall be retained by the Department for use in the Division of Motor Vehicles.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

Also, Section 56-3-840 of the South Carolina Code of Laws provides for revenues from delinquent registrations and license penalties to be retained by the Department for a building fund for future construction.

Under Sections 14-1-206, 14-1-207, and 14-1-208 of the State Code of Laws as amended effective January 1, 1995, any person who is convicted, pleads guilty or no contest, or forfeits bond for an offense tried in general session, magistrates' court or municipal court must pay an amount equal to one hundred, one hundred, and sixty-four percent, respectively, of the fine imposed as an assessment. The Department receives a specific portion of each of these assessments for training in the fields of law enforcement and criminal justice. In addition, a specific portion of each assessment is also to be used to defray the cost of erecting and maintaining the South Carolina Law Enforcement Hall of Fame. If funds collected exceed the necessary costs and expenses of the Hall of Fame operations and maintenance, the Department may retain the surplus for use in its law enforcement training programs. As needed, certain monies from court fines are transferred to the capital projects fund to fund Hall of Fame construction and approved capital projects for facilities for training in the fields of law enforcement and criminal justice.

Under Section 44-53-530 of the State Code of Laws all real or personal property, conveyances and equipment of any value, when reduced to proceeds, any cash more than one thousand dollars, any negotiable instruments, and any securities which are seized and forfeited must be disposed of as follows:

- a) 75% to the law enforcement agency.
- b) 20% to the prosecuting agency.
- c) 5% must be remitted to the State Treasurer's Office and deposited to the credit of the General Fund of the State for law enforcement agencies. The funds must be used for drug enforcement activities and for prosecution agencies. The funds must be used in matters relating to the prosecution of drug offenses and litigation of drug-related matters. Proceeds awarded to the Department through this provision by the courts are reflected in the financial statements as "Drug confiscations" revenue.

Under Section 24-3-40 of the State Code of Laws, the Director of the South Carolina Department of Corrections shall withhold 5% of the inmate gross wages and promptly deposit these funds with the State Treasurer for credit to a special account to support victim assistance programs established pursuant to the Victims of Crime Act of 1984, Public Law 98-473, Title II, Chapter XIV, Section 1404. Inmate wages remitted to the Department are recorded in "Victim restitution" in the statements of revenues, expenditures and changes in fund balances – governmental funds.

Under the amendment to Section 56-5-4160(E) of the State Code of Laws effective June 5, 1996, the Department shall use the proceeds from vehicle size and weight violation fines to establish and maintain automated data bases, to upgrade and refurbish existing weigh stations, to purchase and maintain portable scales, to hire additional other funded troopers or officers, to purchase equipment, and to procure other safety measures that the Department deems necessary. These fines are recorded in the financial statements as "vehicle size and weight violation fines". As needed, certain monies from vehicle size and weight violation fines are transferred to the capital projects fund to fund capital projects which involve upgrading and refurbishing existing weigh stations.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Under Section 14-1-208 of the State Code of Laws, persons who are convicted of or pleads guilty for a traffic offence tried in municipal court must pay an amount equal to 100% of the fine imposed as an assessment which is remitted to the State Treasurer. Section 56-5-2953 of the State Code of Laws provides that 87.5% of the assessments received in accordance with Section 14-1-208(c)(9) shall be expended by the Department to purchase, maintain and supply videotaping equipment.

Under Section 56-10-245 of the State Code of Laws, whenever the Department determines there is a lapse in the required liability insurance coverage the Department shall assess, in addition to other fined or penalties imposed by the law, a per diem fine in the amount of five dollars and a \$250 reinstatement fee. The Department shall collect and keep these funds to defer the costs of the financial responsibility program.

Section 44/53-810 of the State Code of laws established the Drug Awareness Resistance Education (DARE) Fund and Section 12-6-5080 provided for a designation on individual income tax forms to enable taxpayers to contribute to the fund. Funds have been transferred to the Department by the DARE Fund to be used for the program.

Section 10-1-180 of the State Code of Laws provides that the expenditure of funds by any State Agency is subject to approval and regulations of the State Budget and Control Board. A reserved balance is provided for designated funds that were unexpended as of year end.

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

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

#### Fiduciary Funds:

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

- The financial responsibility and driver records fund accounts for bonds received by the Department that are held until court resolution of the violation necessitating the bond and for deposits to obtain driver records. When the accounts are closed, unused funds are returned after all invoices for services have been paid.
- The self-insurance fund consists of certificates of deposit located at the State Treasurer's Office that are in the name of the Department and the insured entity. These deposits represent amounts that are placed on hold from different companies that are basically self-insuring themselves for liability claims for certain commercial carriers.
- The evidence fund includes confiscated funds held by the Department in an agency capacity until court adjudication.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

- The driver record deposit fund includes funds received by the Department to establish accounts to obtain driver records. When the account is closed, the funds are if all outstanding invoices for services have been paid.
- The international fuel tax fund was created by Section 12-4-410 of the South Carolina Code of Laws to provide registration and related services to interstate and intrastate motor carriers and other customers. The revenue collected, less refunds made and costs of operation associated therewith from this activity, flow through this fund and the excess funds accumulated over the actual and projected costs associated with administering and enforcing this chapter are deposited into the State Highway Fund of the South Carolina Department of Transportation. Also, pursuant to Section 56-11-500 of the South Carolina Code of Laws, the Department may assess the South Carolina Department of Transportation amounts necessary to cover the costs associated with administering and enforcing the laws that are not covered by the fuel tax.

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

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

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

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

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

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

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

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

#### **Budget Policy**

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

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

#### **Cash and Cash Equivalents**

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

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the State's interest cash management pool including investments held by the pool, see the disclosures for deposits in Note 3.

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**Capital Assets**

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

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

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

**Receivables**

All of the receivables of the Department are reported net of any allowances for uncollectible amounts and any discounts, if applicable. The Department's receivables consist of amounts due from the Federal government, State agencies, local governments, and other entities and individuals. No allowance for uncollectible amounts was provided for based on management's evaluation of the collectibility of the receivable balances at June 30, 2002.

**Inventories**

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

**Interfund Receivables/Payables**

Long-term interfund loans are classified as "advance to" or "advance from" particular funds. Short-term amounts are classified as "due to" or "due from" the particular funds. No interest is charged on the

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no advances outstanding as of June 30, 2002.

#### **Indirect Cost Recoveries**

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

#### **Deferred Revenue**

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

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave, compensatory overtime, and holiday leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the Department's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2002. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the Department expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

#### **Use of Estimates**

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

#### **Net Assets**

Net assets are classified and presented in three components:

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

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

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

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

**Reserved Fund Balances – Governmental Funds**

The equity section of the governmental funds balance sheet is comprised of two fund balance elements: reserved and unreserved. Reserved balances either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriable for future discretionary expenditures. All other current resources are shown as unreserved.

**NOTE 2. STATE APPROPRIATION:**

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

The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2002:

Original Appropriations	\$129,755,198 (21,676,230)
Budget Reductions	
State Budget and Control Board Allocations:	
Employee Pay Increases and Related Benefits (Proviso 63C.9)	3,325,059
Homeland Security Deficit Spending Allowance (Proviso 63C.6 of the fiscal year 2001-2002 Appropriations Act)	<u>2,592,387</u>
Revised Appropriations – Legal Basis	113,996,414
Change in Funding for Net Accrual Adjustments	<u>(63,710)</u>
State Appropriation Revenue – Accrual Basis	<u>\$113,932,704</u>

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The Department carried forward \$5,768 of capital reserve fund appropriations for a computer system upgrade from 2000-2001 to the 2001-2002 fiscal year pursuant to Proviso 73.1 of the 2000-2001 Appropriations Act. In addition, the Department carried forward \$3,856 for total quality management that was received as an allocation from the Budget and Control Board in prior years and remained unspent at June 30, 2001. Proviso 63A.2 of the 2001-2002 Act authorized these funds to be carried forward to fiscal year 2002 for the same purposes.

The Department received a \$9,400,000 capital reserve fund appropriation during fiscal year 2001 of which \$9,300,000 was earmarked for the Department of Motor Vehicles computer system upgrade and \$100,000 for the Lower Richland Sheriff's substation. The \$9,400,000 was drawn down from the State Treasurer as expended. The Department expended \$4,418,232 during fiscal year 2001 and \$4,981,768 during fiscal year 2002 and included those amounts in revenues for each fiscal year.

**NOTE 3. DEPOSITS:**

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

<u>Balance Sheet</u>	
Cash and cash equivalents:	
Governmental Funds	\$53,895,484
Fiduciary Funds	<u>1,599,841</u>
Total	<u>\$55,495,325</u>
 <u>Footnotes</u>	
Cash on hand	\$ 72,810
Deposits held by State Treasurer	55,272,515
Other deposits	<u>150,000</u>
Total	<u>\$55,495,325</u>

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

Cash and cash equivalents reported in the financial statements include \$179,559 in unrealized appreciation as of June 30, 2002. The interest/investment income reported in the statements includes the increase in unrealized appreciation of \$125,362 for the year ended June 30, 2002.

**Other Deposits**

Funds not on deposit with the State Treasurer as of June 30, 2002 are agency fund deposits with a carrying amount and bank balance of \$150,000. These deposits are fully insured.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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**NOTE 4. INVENTORIES:**

The Department's inventories at June 30, 2002 totaled \$7,046,704. These inventories consisted primarily of supplies for the Department of Motor Vehicles, including license tags, manuals, etc.; supplies for the Highway Patrol, including uniforms, guns and accessories and vehicle accessories; office supplies for internal use; and building supplies, including janitorial.

**NOTE 5. CAPITAL ASSETS:**

The following schedule summarizes capital assets activity for the Department for the fiscal year 2002:

	Beginning Balances as Restated June 30, 2001		Increases (Decreases)	Decreases (Increases)	Ending Balances June 30, 2002
Capital assets not being depreciated:					
Land and improvements	\$ 2,013,782 (A)		\$	\$	\$ 2,013,782
Construction in progress	<u>18,377,419</u>		<u>8,013,730</u>	<u>104,372</u>	<u>26,286,777</u>
Total capital assets not being depreciated	<u>20,391,201</u>		<u>8,013,730</u>	<u>104,372</u>	<u>28,300,559</u>
Other capital assets being depreciated:					
Buildings and improvements	43,471,473 (A)		104,372		43,575,845
Equipment and furniture	11,575,177		2,683,364	1,080,995	13,177,546
Vehicles	32,635,786		4,692,221	1,208,355	36,119,652
Software			<u>707,998</u>		<u>707,998</u>
Total other capital assets	<u>87,682,436</u>		<u>8,187,955</u>	<u>2,289,350</u>	<u>93,581,041</u>
Less accumulated depreciation for					
Buildings and improvements	13,306,461		1,086,152		14,392,613
Equipment and furniture	6,821,217		2,596,230	1,005,524	8,411,923
Vehicles	24,016,469		5,876,187	1,043,303	28,849,353
Software			<u>235,999</u>		<u>235,999</u>
Total accumulated depreciation	<u>44,144,147</u>		<u>9,794,568</u>	<u>2,048,827</u>	<u>51,889,888</u>
Other capital assets, net of depreciation	<u>43,538,289</u>		<u>(1,606,613)</u>	<u>240,523</u>	<u>41,691,153</u>
Total capital assets for governmental activities, net	<u>\$ 63,929,490</u>		<u>\$ 6,407,117</u>	<u>\$ 344,895</u>	<u>\$ 69,991,712</u>

(A) \$160,377 was reclassified from the buildings and improvements category to the land and improvements category as of July 1, 2001.

For the fiscal year ended June 30, 2002, the Department expended \$1,574,925 through its capital projects fund. \$1,018,067 was expended for projects that meet the Department's capitalization policy and \$556,858 was expended for non-capitalized repair and renovation projects.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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The Department included in its construction in progress the Phoenix Project at June 30, 2002. This project included the development of software for the Division of motor Vehicles to use to administer the licensing of motor vehicles to individuals in the State of South Carolina. The project took approximately five years to develop and test. This project was completed and put into operation August 5, 2002. At June 30, 2001, construction in progress attributable to the software for the Phoenix project totaled \$17,944,772 with \$6,995,663 added during the current fiscal year. The estimated cost to complete this project was \$775,000, all of which were committed for as of June 30, 2002.

The Department has obtained the necessary funding for the acquisition, construction, renovation and repair of certain facilities. Management estimates that the Department has sufficient resources available in the capital projects fund and for transfer from the general fund to the capital projects fund to complete the various projects over the next two years. The estimated costs of the projects to be capitalized total approximately \$2,613,000 of which approximately \$1,267,000 was unexpended at June 30, 2002. The projects in progress which will not be capitalized over the next two years have estimated total costs of approximately \$5,894,000 of which approximately \$5,318,500 was unexpended at June 30, 2002.

At June 30, 2002, the Department had commitments of approximately \$95,800 for future expenditures for the projects in progress that are to be capitalized and \$56,500 for the projects in progress that are not to be capitalized.

**NOTE 6. DUE FROM THE GENERAL FUND OF THE STATE:**

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

**NOTE 7. OPERATING TRANSFERS:**

Operating transfers of \$584,116 were made from the general fund to the capital projects fund for the funding of capital projects.

**NOTE 8. OPERATING LEASES:**

The Department has entered into various operating leases for modular buildings, office space, office equipment and motor vehicles. Payments are due on a monthly basis. Ending payment dates on noncancelable operating leases are in various fiscal years 2003 through 2006. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Department is responsible for maintenance on most leased property.

Rental expenditures for all operating leases aggregated approximately \$2,282,000 for the fiscal year ended June 30, 2002.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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The following is a schedule by years of future minimum rental payments as of June 30, 2002 required under the noncancelable operating lease agreements having remaining lease terms in excess of one year:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 249,168
2004	219,720
2005	131,494
2006	<u>27,808</u>
Total	<u>\$ 628,190</u>

Certain of the operating leases are with the South Carolina State Budget and Control Board for motor vehicles. Rental expenditures made to the State for the year ended June 30, 2002 were approximately \$263,000. The Department's leases for these vehicles are renewed annually.

Rental expenditures of approximately \$79,900 were incurred under contingent lease agreements for copiers that are cancelable.

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

Long-term liability activity for the year ended June 30, 2002 follows:

	Beginning Balances, July 1, 2001	Increases	Decreases	Ending Balances June 30, 2002	Amount Due Within One Year
Notes payable to the South Carolina Department of Transportation	\$ 2,049,819			\$ 2,049,819	\$ -
Due South Carolina Department of Transportation for utilities and other costs	238,347			238,347	-
Accrued compensated absences and related benefits	<u>13,271,249</u>	<u>3,463,325</u>	<u>5,149,896</u>	<u>11,584,678</u>	<u>5,076,000</u>
Totals	<u>\$ 15,559,415</u>	<u>\$ 3,463,325</u>	<u>\$ 5,149,896</u>	<u>\$ 13,872,844</u>	<u>\$ 5,076,000</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
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The notes payable to the South Carolina Department of Transportation (SCDOT) is the remaining balance due on two agreements that were entered into for goods and services purchased during prior years. Through August 30, 2000, \$6,455,327 had been paid on the two note agreements leaving balance totaling \$3,282,357. A settlement agreement to resolve certain restructuring issues was entered into January 19, 2001 by the two agencies wherein the balances owed on the two note agreements as of August, 2000 were reduced \$1,232,538 to \$2,049,819.

The settlement agreement also provided for the SCDOT to purchase the Departments 35% interest in the office building and parking lot located at 955 Park Street, Columbia, SC for \$6,300,000 on or before December 31, 2003. Until sold, the Department will continue to occupy the building and reimburse SCDOT for 35% on the utilities and other costs related to the property beginning January 1, 2002. The utilities and other costs for the period January 1, 2002 – June 30, 2001 totaling \$238,347. The agreement provided that the note payable balance of \$2,049,819 and the utilities and other costs of \$238,347 for the period January 1, 2002 – June 30, 2002 would be deferred and used as offsets against the purchase price of the Park Street building. SCDOT purchased the building in March, 2003 and paid off the \$2,049,819. The Department can continue to occupy the space and pay the utilities and other costs through December 31, 2003.

**NOTE 10. TRANSACTIONS WITH OTHER STATE AGENCIES:**

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

The Department transferred \$1,748,129 to the General Fund of the State pursuant to Proviso 72.111 of the 2001-2002 Appropriations Act.

The Department as part of its mission collected revenues from motor vehicle license fees and other sources totaling \$51,239,444 for the General Fund of the State. \$9,730,099 was remitted by the Department in July, 2002 and is included in Due to the General Fund of the State.

The Department collected \$54,334,665 in revenues from truck registration fees and penalties that were remitted to the South Carolina Transportation Infrastructure Bank in accordance with Sections 56-3-660 and 56-3-670 of the South Carolina Code of Laws for the fiscal year 2002. \$6,730,880 was remitted subsequent to year-end and is included in Due to Other State Agencies.

The Department collected revenues of \$7,727,151 from license fees for the South Carolina Department of Transportation in accordance with Section 56-3-910 of the South Carolina Code of Laws. \$1,232,806 was remitted by the Department subsequent to year end and is included in Due to Other State Agencies.

The Department collected \$95,999 of revenues from the issuance of special license plates for the South Carolina Department of Transportation Keep South Carolina Beautiful Fund in accordance with Section 56-3-3950 of the South Carolina Code of Laws. \$14,308 was remitted by the Department subsequent to year-end and is included in Due to Other State Agencies.

In accordance to Section 12-37-2860 of the South Carolina Code of Laws, a one-time fee was payable to the Department in the amount of eight-seven dollars on all semi-trailers and trailers for permanent tags and license fees. Twelve dollars of the one-time fee is allocable to the South Carolina Department of Revenue and the remaining seventy-five dollars is allocable to local governments based on provisions in Section 12-37-2870. The Department collected revenues of which \$101,726 was allocable to the South Carolina Department of Revenue and \$620,560 was allocable to local county governments.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

The Department collected revenues of \$230,300 for the South Carolina Department of Insurance in accordance with Section 56-10-550 of the South Carolina Code of laws for fiscal year 2002. \$32,750 was remitted subsequent to year end and is included in Due to Other State Agencies.

The Department collected revenues of \$179,022 for the issuance of special license plates and fees for the South Carolina Department of Education in accordance with Section 56-3-5010 of the South Carolina Code of Laws for fiscal year 2002. \$35,009 was remitted subsequent to year-end and is included in Due to Other State Agencies.

In connection with the licensing of motor vehicles, the Department collects South Carolina sales tax on casual sales and remits the collections monthly to the South Carolina Department of Revenue. During the fiscal year ended June 30, 2002, the Department collected \$32,044,288 in sales taxes of which \$4,886,058 was unremitted at June 30, 2002. The \$4,886,058 is included in Due to Other State Agencies.

The Department paid the South Carolina Department of Corrections approximately \$1,528,000 for general repairs, printing, production of license plates, the cleaning and maintenance of the ground and buildings, office supplies, office and modular equipment and electricity.

The Department paid the South Carolina Department of Revenue approximately \$178,000 for office supplies, utilities, general repairs, data processing supplies and services, photographic and audiovisual supplies and services, printing, copying supplies, grounds maintenance, janitorial and security supplies, motor vehicle, promotional supplies, food and clothing supplies, munitions, targets, and law enforcement supplies and permanent improvements, testing supplies, communications supplies, employee recognition awards, fees and fines, and educational training services and supplies.

The Department paid the South Carolina Department of Transportation approximately \$566,000 for the cleaning and maintenance of the grounds and buildings, utilities, and office supplies.

The Department paid the South Carolina Educational Television Commission approximately \$231,000 for professional services, studio usage and telecommunications services.

The Department paid the South Carolina Governor's Office-State Law Enforcement Division approximately \$55,000 for data processing, drug testing, telecommunications services, data processing equipment, dues and membership fees and fines.

The Department paid the University of South Carolina approximately \$116,000 for education and training services, research, survey and appraisal services, office supplies, registration fees, legal services and allocations to other State agencies.

The Department paid the Comptroller General approximately \$135,000 for unemployment compensation insurance and office supplies.

The Department paid the South Carolina Budget and Control Board approximately \$19,335,000 for data processing services and supplies, motor vehicle services, microfilm processing, promotional services, freight and delivery, legal services, general repair, office supplies, motor vehicles, insurance, meals, registration fees, state owned leased cars, renovations for buildings and additions, telephone and telegraph, copying equipment supplies, maintenance and security supplies and services, photographic and audio visual supplies, rental for state owned real property, fees and fines, repairs and renovations for roofing, builders risk insurance, health insurance and dental insurance.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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The Department passed through Federal Funds to the following State agencies:

South Carolina Judicial Department	\$ 376,259
South Carolina Governor's Office – State Law Enforcement Division	432,413
South Carolina Attorney General	138,140
South Carolina Commission on Prosecution Coordination	624,315
Clemson University	323,056
University of South Carolina	687,308
Winthrop University	1,225
Medical University of South Carolina	53,996
South Carolina Department of Health & Environmental Control	80,956
South Carolina Department of Mental Health	383,845
South Carolina Department of Social Services	50,428
South Carolina Department of Corrections	1,355,572
South Carolina Probation, Parole and Pardon Board	26,124
South Carolina Department of Juvenile Justice	1,034,556
South Carolina Department of Natural Resources	24,300
South Carolina Department of Insurance	46,588
South Carolina Department of Transportation	<u>1,995,750</u>
Totals	<u>\$ 7,634,831</u>

The Department paid the State Accident Fund approximately \$127,000 for worker's compensation insurance.

The Department paid other State agencies approximately \$18,600 for various goods and services.

Payments were received from various State agencies for goods and services as follows:

- Payments received from the South Carolina Labor, Licensing and Regulation Board totaling approximately \$54,000 for security services.
- Payments received from State Budget and Control Board – Motor Vehicle Management Division of approximately \$32,000 for sale of goods and services.
- Payments received from the South Carolina Department of Juvenile Justice totaling approximately \$46,000 for reimbursement for salaries and fringes.
- Payments received from State Budget and Control Board - Office of Information Resources totaling approximately \$215,000 for security and other services.
- Payments received from the South Carolina Probation, Parole, and Pardon Board totaling approximately \$24,000 for security services.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

- Payments received from the South Carolina Department of Transportation totaling approximately \$18,000 for tags, Motor Fuel Enforcement Program (MFEP), and title/registration information.
- Payments received from the South Carolina Commission for the Blind totaling approximately \$72,000 for security services.
- Payments received from the South Carolina Department of Health and Environmental Control totaling approximately \$748,000 for security services.
- Payments received from the South Carolina Department of Corrections totaling approximately \$8,000 for sale of goods and services.
- Payments received from the South Carolina Department of Education totaling approximately \$11,000 for sale of goods and services.
- Payments received from the South Carolina Department of Revenue totaling approximately \$76,000 for security services and for sale of goods and services.

The \$1,394,624 due to other State agencies in the Federal fund represents amounts due for expenditures made under Federal grants prior to June 30, 2002.

\$1,221,587 is due from various state agencies for sales of goods and services as of June 30, 2002.

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

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

#### **NOTE 11. CONTINGENCIES/SUBSEQUENT EVENTS:**

The various federal programs administered by the Department for the fiscal year 2002 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence that a liability should be recorded.

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

On January 23, 2003, the Department purchased approximately 53 acres of land, two office buildings with approximately 303,000 square feet and a warehouse with approximately 38,800 square feet for \$18,500,000 and various personal property for \$572,000. Financing was provided by State Facilities Installment Purchase Revenue Bonds, Series 2003 issued by the State of South Carolina. The bonds mature between 2004-2018 and bear interest at rates ranging from 3.00% to 5.00% per annum.

**NOTE 12. DEFERRED COMPENSATION PLANS:**

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

**NOTE 13. RETIREMENT INCENTIVE:**

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws provided for active members of the South Carolina Retirement System who are 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 a Program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the TERI Program period for the annual vacation leave earned and unused during the program period.

The Department recorded payments of approximately \$73,360 for lump-sum annual vacation leave payments to its employees retiring under the TERI Program in fiscal year 2002.

**NOTE 14. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits.

The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at the date of retirement when the employee is eligible for retirement benefits.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
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These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 24,000 State retirees met these eligibility requirements at June 30, 2002.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$9,054,000 for the year ended June 30, 2002. As discussed in Note 15, the Department paid approximately \$2,476,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

**NOTE 15. PENSION PLANS:**

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

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

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

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.40 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2002, 2001 and 2000 were approximately \$3,139,000, \$3,414,000, and \$2,861,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$62,000 in the current fiscal year at the rate of .15 percent of compensation.

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

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2002, 2001, and 2000 were approximately \$4,665,000, \$4,887,000 and \$4,349,000 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. In addition, the Department paid employer group-life insurance contributions of approximately \$90,000 and accidental death insurance contributions of approximately \$90,000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

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

**NOTE 16. RISK MANAGEMENT:**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and 20% coinsurance on real property and its contents. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverages in any of the prior three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductible.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

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

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurance but the ISF remains primarily liable. The ISF's rates are determined actuarially.

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

The Department retains the risk of loss on property damage to the vehicles (automobile collision) operated by the Department because it estimates the cost of repairs will be less than the cost of insurance. Expenditures reported by the Department are recorded in the expenditure category for which the vehicle is used to support in the general fund. The liability is included in accounts payable. A summary of the claims activity for the fiscal years ended June 30 2002 and 2001, is as follows:

<u>Fiscal Year Ended</u>	<u>Unpaid Claims, Beginning</u>	<u>Current Year Claims</u>	<u>Claims Paid</u>	<u>Unpaid Claims, Ending</u>
June 30, 2002	<u>\$ 15,447</u>	<u>\$ 294,431</u>	<u>\$ 298,665</u>	<u>\$ 11,213</u>
June 30, 2001	<u>\$ 19,499</u>	<u>\$ 490,881</u>	<u>\$ 494,933</u>	<u>\$ 15,447</u>

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

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 17. ACCOUNTING CHANGES/PRIOR ADJUSTMENTS:**

All State agencies and institutions were required to adopt a capitalization limit of \$5,000 for movable personal property and \$100,000 for depreciable land improvements, buildings and improvements, and tangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the Department removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statement No. 34 as discussed in Note 1, the Department was required to make certain changes in accounting principles, specifically recording in the statement of net assets certain assets and liabilities.

Also, the Department discovered errors in the application of accounting principles regarding unrecorded accounts receivables for sales of goods and services/cost recoveries and other revenues and the recorded portion of revenues from a \$9,400,000 capital revenue fund appropriation that was authorized in fiscal year 2001.

The effect of accounting and reporting changes on beginning fund balance in the governmental funds financial statements is as follows:

	General Fund
Fund balance, June 30, 2001, as previously reported	\$ 20,173,591
Correction of errors:	
Capital reserve fund appropriations revenue	(4,981,768)
Accounts receivable from sales of goods and services/ cost recoveries and other revenues	441,642
Total adjustments	(4,540,126)
Fund balance, June 30, 2001, as restated	\$ 15,633,465

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

The effect of accounting and reporting changes on beginning net assets in the entity-wide financial statements is as follows:

Net assets, June 30, 2001, as previously reported	\$ 20,173,591
Record fund equity at June 30, 2001 of fund-based activities previously reported in general purpose financial statements	6,169,979
Adjustments resulting from corrections of errors involving the application of accounting principles	(4,540,126)
GASB Statement 34 restatements to record assets and liabilities:	
Capital assets:	
Construction in progress	18,377,419
Other capital assets	124,362,744
Accumulated depreciation on capital assets	(44,144,147)
Note payable to State agency	(2,049,819)
Due to State agency	(238,347)
Accrued compensated absences	(13,271,249)
Adjustments resulting from increase in capitalization limit for capital assets	<u>(34,666,526)</u>
Net assets, June 30, 2001, as restated	<u><u>\$ 70,173,519</u></u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**COMBINING STATEMENT OF CHANGED IN ASSETS AND LIABILITIES-  
ALL AGENCY FUNDS  
YEAR ENDED JUNE 30, 2002**

	<u>Balances, July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances, June 30, 2002</u>
<b>FINANCIAL RESPONSIBILITY AND DRIVER RECORDS*</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ <u>1,013,274</u>	\$ <u>205,812</u>	\$ <u>191,585</u>	\$ <u>1,027,501</u>
<b>LIABILITIES:</b>				
Amounts held for others	\$ <u>1,013,274</u>	\$ <u>205,812</u>	\$ <u>191,585</u>	\$ <u>1,027,501</u>
 <b>SELF-INSURANCE:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 240,600	\$	\$ 90,600	\$ 150,000
Other assets	<u>15,000</u>	<u>                    </u>	<u>                    0</u>	<u>15,000</u>
Total assets	<u>\$ 255,600</u>		<u>\$ 90,600</u>	<u>\$ 165,000</u>
<b>LIABILITIES:</b>				
Amounts held for others	<u>\$ 255,600</u>	<u>                    </u>	<u>\$ 90,600</u>	<u>\$ 165,000</u>
 <b>EVIDENCE:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ <u>64,875</u>	\$ <u>                    -</u>	\$ <u>64,375</u>	\$ <u>500</u>
<b>LIABILITIES:</b>				
Amounts held for others	\$ <u>64,875</u>	\$ <u>                    -</u>	\$ <u>64,375</u>	\$ <u>500</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**COMBINING STATEMENT OF CHANGED IN ASSETS AND LIABILITIES-  
ALL AGENCY FUNDS  
YEAR ENDED JUNE 30, 2002**

	Balances, July 1, 2001	Additions	Deductions	Balances, June 30, 2002
<b>INTERNATIONAL FUEL TAX:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 583,879	\$ 5,836,619	\$ 6,003,558	\$ 416,940
Accounts Receivable		320,120		320,120
Due from General Fund	<u>121,372</u>		<u>121,372</u>	
Total assets	<u>\$ 705,251</u>	<u>\$ 6,156,739</u>	<u>\$ 6,124,930</u>	<u>\$ 737,060</u>
<b>LIABILITIES:</b>				
Accounts payable	\$	\$ 710,234	\$	\$ 710,234
Amounts held for others	<u>705,251</u>	<u>6,156,739</u>	<u>6,835,164</u>	<u>26,826</u>
Total liabilities	<u>\$ 705,251</u>	<u>\$ 6,866,973</u>	<u>\$ 6,835,164</u>	<u>\$ 737,060</u>
<b>DUAL EMPLOYMENT:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	<u>\$ 5,000</u>	<u>\$ 9,498</u>	<u>\$ 9,598</u>	<u>\$ 4,900</u>
<b>LIABILITIES:</b>				
Amounts held for others	<u>\$ 5,000</u>	<u>\$ 9,498</u>	<u>\$ 9,598</u>	<u>\$ 4,900</u>
<b>TOTALS – ALL AGENCY FUNDS:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,907,628	\$ 6,051,929	\$ 6,359,716	\$ 1,599,841
Accounts receivable		320,120		320,120
Due from General Fund	121,372		121,372	
Other assets	<u>15,000</u>			<u>15,000</u>
Total assets	<u>\$ 2,044,000</u>	<u>\$ 6,372,049</u>	<u>\$ 6,481,088</u>	<u>\$ 1,934,961</u>
<b>LIABILITIES</b>				
Accounts payable	\$	\$ 710,234	\$	\$ 710,234
Amounts held for others	<u>2,044,000</u>	<u>5,661,815</u>	<u>6,481,088</u>	<u>1,224,727</u>
Total liabilities	<u>\$ 2,044,000</u>	<u>\$ 6,372,049</u>	<u>\$ 6,481,088</u>	<u>\$ 1,934,961</u>

\*Accounts combined as of July 1, 2001 for these activities.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>U.S. Department of Justice</b>			
<i>Direct Programs:</i>			
Juvenile Accountability Incentive Block Grants	16.523	\$ 3,905,223	\$ 3,770,460
Juvenile Justice and Delinquency Prevention - Allocations to States	16.540	886,954	720,511
Title V - Delinquency Prevention Program	16.548	424,529	424,529
Part E - State Challenge Activities	16.549	70,982	70,982
State Justice Statistics Program for Statistical Analysis Centers	16.550	62,480	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	7,108	
Crime Victim Assistance	16.575	5,093,776	4,872,543
Byrne Formula Grant Program	16.579	7,514,626	6,339,500
Violence Against Women Formula Grants	16.588	1,625,931	1,402,565
Local Law Enforcement Block Grants Program	16.592	356,414	347,255
Residential Substance Abuse Treatment for State Prisoners	16.593	1,033,677	1,026,346
Bulletproof Vest Partnership Program	16.607	52,443	27,529
<b>TOTALS U.S. DEPARTMENT OF JUSTICE</b>		<b>21,034,143</b>	<b>19,002,220</b>
<b>U.S. Department of Transportation</b>			
<i>Direct Programs:</i>			
Motor Carrier Safety	20.217	2,571,983	
National Motor Carrier Safety	20.218	409,040	
State and Community Highway Safety	20.600	5,995,402	4,007,225
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	439,341	234,685
Safety Incentive Grants for Use of Seatbelts	20.604	1,725,266	
<b>TOTALS U.S. DEPARTMENT OF TRANSPORTATION</b>		<b>11,141,032</b>	<b>4,241,910</b>
<b>Federal Emergency Management Agency</b>			
<i>Direct Programs:</i>			
Emergency Management Performance Grants	83.552	7,911	
<b>U.S. Department of Education</b>			
<i>Direct Programs:</i>			
Safe and Drug - Free Schools and Communities - State Grants	84.186	27,733	
<b>TOTALS FEDERAL ASSISTANCE</b>		<b>\$ 32,210,819</b>	<b>\$ 23,244,130</b>

**NOTE:** The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina Department of Public Safety and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have audited the financial statements of the South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

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

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 02 - 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described on the accompanying schedule of findings and questioned costs is a material weakness.

We also noted other matters involving the internal control over financial reporting which are described as other Management Letter Comments and are identified as item 02 - 2 through 02 - 5.

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

*Roger E. Laban, PA*

April 25, 2003



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of the South Carolina Department of Public Safety (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Department's major federal 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 Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

### Internal Control Over Compliance

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

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

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

*Lopez & Lohan, PA*

April 25, 2003

**SOUTH CAROLINA STATE DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

- |                                                                              |                                                                     |
|------------------------------------------------------------------------------|---------------------------------------------------------------------|
| 1. Type of auditor's report issued:                                          | Unqualified Opinion                                                 |
| 2. Internal control over financial reporting:                                |                                                                     |
| Material weaknesses identified?                                              | <input checked="" type="checkbox"/> yes <input type="checkbox"/> no |
| Reportable condition identified<br>not considered to be material weaknesses? | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |
| 3. Non-compliance material to the Financial<br>Statements noted?             | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |

**Federal Awards**

- |                                                                                                                            |                                                                     |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| 4. Internal control over major programs:                                                                                   |                                                                     |
| Material weakness identified?                                                                                              | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |
| Reportable condition identified<br>Not considered to be material weaknesses                                                | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |
| 5. Type of auditor's report issued on compliance for<br>major programs:                                                    | Unqualified Opinion                                                 |
| 6. Any audit findings disclosed that are required to be<br>reported in accordance with Circular A-133,<br>Section .510(a)? | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |
| 7. Identification of major programs:                                                                                       |                                                                     |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States
16.575	Crime Victim Assistance
16.579	Byrne Formula Grant Program
20.217	Motor Carrier Safety
20.600	State and Community Highway Safety

- |                                                                                     |                                                                     |
|-------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| 8. Dollar threshold used to be distinguished between Type A<br>and Type B Programs: | \$ 966,325                                                          |
| 9. Auditee qualified as low-risk auditee?                                           | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no |

**SOUTH CAROLINA STATE DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**SUMMARY OF THE AUDITOR'S RESULTS**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

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

**02-1 IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITAL ASSETS**

**Condition:** The Department's fixed asset closing package did not include the Project Phoenix software costs in its construction in progress account balance. This project was commenced in 1998 and completed and put into use August 5, 2002. An adjustment was made to record the costs as of a capital asset.

A finding that included deficiencies regarding accounting for capital projects was included in the prior year's management letter.

**Cause:** Prior to July 1, 2001, the Department did not capitalize software costs and did not make an adjustment to its closing package to record this balance as of July 1, 2001 and the costs incurred during fiscal year 2002.

**Effect:** Capital assets were understated by the Department.

**Criteria:** The State of South Carolina capitalization guidelines require software costing more than \$100,000 to be capitalized.

**Recommendations:** We recommend that the Department capitalize capital assets acquired in accordance with the guidelines established by the State of South Carolina.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2002

Other management letter comments include the following:

#### 02-2 DIFFERENCES IN INVENTORY

**Condition:** Our tests of the year end inventory balances disclosed extension and addition errors in the worksheets supporting the amounts reported on the Department's closing package. The differences noted resulted in the supply depot inventory being understated \$20,146 and the DMV field offices inventory being overstated \$59,430.

**Cause:** The Department personnel made sixteen errors in tabulating the year end inventory that were not detected.

**Effect:** Total inventory was overstated \$39,284 as of year end.

**Criteria:** Good business practice require that the calculation of amounts that support balances in the Department's financial statements be accurate.

**Recommendation:** The Department should implement and procedures to minimize errors in calculation the year end inventory. Also, verification and review procedures should be applied to the initially calculated amount.

#### 02-3 INSURANCE COVERAGE

**Condition:** The Department is not properly updating the amounts of insurance coverage for its buildings owned throughout the State based on the annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund. In addition, it appears that some of the buildings are not insured. The same finding was cited in the prior year's management letter.

**Cause:** There was not an apparent reason the insurance coverage for the Department was not reviewed and updated.

**Effect:** The Department could realize losses from not having adequate coverage or by paying excess premiums if the properties are insured for more than their current value.

**Criteria:** Good business practices require the Department to review and update insurance coverage's in force at least annually.

**Recommendation:** We recommend that the Department utilize the current annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund and the agency listing of building costs in determining the correct amounts of insurance coverage.

#### 02-4 ERRORS IN OPERATING LEASE CLOSING PACKAGE

**Condition:** Our review of the operating lease closing package disclosed that two leases had incorrect breakdowns of future lease payments between minimum lease payments and executory costs.

**Cause:** The cause resulted from the failure to carefully review the closing package and supporting schedules.

**Effect:** Understatements of amounts for future payments of minimum lease payments and overstatements of executory costs on the closing package.

**Criteria:** Generally accepted accounting principles require the accurate reporting of all amounts. Also, the instructions contained in the Comptroller General's closing package manual have the instructions for the breakdown of reporting future payments between minimum lease payments and executory costs.

**Recommendation:** We recommend that additional care be exercised in the preparation of the operating leases closing package to ensure that all reported amounts are accurate.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**OTHER MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**02-5 SYSTEM OF RECEIVING FUNDS INADEQUATE**

**Condition:** There are deficiencies in the operation of Motor Vehicle Division of the Department which include: passwords to override the system by the supervisors are posted on the computer screens used by the tellers; transactions can be voided by the teller and entered to the system with no adult trail; the system is frequently down, requiring the tellers to process transactions manually for later entry into the computer system; there are no checks and balances of funds received for other agencies such as the sales tax on vehicles sold that is collected for the South Carolina Department of revenue and, there is not a clear audit trail from the funds received by the tellers to the postings made by the system to the general ledger. Until the system is updated or replaced, the deficiencies will continue to exist.

This finding was also cited in the prior year's report.

**Cause:** The Motor Vehicle Division has an antiquated system for receiving and processing revenues.

**Effect:** The procedures being utilized are susceptible to errors being made and undetected and to possible abuse.

**Criteria:** Good internal controls and good business practices require an updated system with an audit trail for receiving and processing funds.

**Recommendation:** We recommend that the Department take immediate steps to update its system of controls for the receiving and processing of receipts and to enhance the reliability of its computer system.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**STATUS OF PRIOR MANAGEMENT LETTER COMMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

During our current audit, we reviewed the status of corrective action taken on the findings and questioned costs and management letter comments reported in our report on the financial statements of the Department dated April 12, 2002, resulting from the audit of the financial statements for the year ended June 30, 2001. We found that adequate corrective action has been taken for the following:

Findings and questioned costs:

01-1 Cash balances incorrect

Other management letter comments:

01-4 Annual leave report inaccurate

The other findings and comments are repeated in the current year's Schedule of Findings and Questioned Costs and/or Other Management Letter Comments.

# **MANAGEMENT'S RESPONSE**

## **APPENDIX A**



South Carolina Department of Public Safety  
Financial Services

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June 25, 2003

Mr. Thomas L. Wagner, CPA  
State Auditor's Office  
1401 Main Street  
Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Department of Public Safety respectfully submits the following responses to the preliminary findings cited by Rogers & Laban, CPAs during their audit of the fiscal year ending June 30, 2002:

**Improvements needed in Accounting for Capital Assets**

*Recommendation:* We recommend that the Department capitalize capital assets acquired in accordance with the guidelines established by the State of South Carolina.

*Response.* The Department concurs with this recommendation. We have taken the necessary steps to accumulate the software costs associated with the implementation of DMV's Project Phoenix computer system upgrade.

**Differences in Inventory**

*Recommendation:* We recommend that the Department implement procedures to minimize errors in calculating the year end inventory.

*Response:* The Department concurs with the need to accurately calculate year end inventory. We will stress the need to properly calculate ending cost amounts during the 2003 year end inventory count process.

Insurance Coverage

*Recommendation:* We recommend that the Department utilize the current annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund and the agency listing of building costs in determining the correct amounts of insurance coverage.

*Response:* The Department concurs with the need for adequate insurance coverage for all agencies properties. Because of this, the agency will continue meeting with the Insurance Reserve Fund to properly value and insure all of the agencies' various properties.

Errors in Operating Lease Closing Package

*Recommendation:* We recommend that additional care be exercised in the preparation of the operating leases closing package to ensure that all reported amounts are accurate.

*Response:* The Department agrees with the need to prepare accurate closing package documents. Because of this, the agency will review and stress the need for accuracy with all closing package preparers for the up coming 2003 year end.

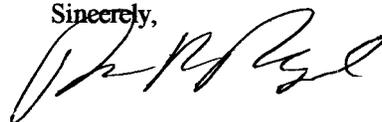
System of Receiving Funds Inadequate

*Recommendation:* We recommend that the Department take immediate steps to update its system of controls for the receiving and processing of receipts and to enhance the reliability of its computer system.

*Response:* The Department concurs with the need to implement a new system that better controls receiving and processing of receipts and enhances the reliability of its computer system. The agency believes just such a system was brought on-line on August 5, 2002 when DMV's Project Phoenix was put into production.

We appreciate the efforts of the Rogers & Laban staff members in reviewing our records.

Sincerely,



Don R. Royal