

March 2, 1999

The Honorable James H. Hodges, Governor
and
Mr. Charles S. Way, Jr., Secretary
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce for the fiscal year ended June 30, 1998, 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 COMMERCE
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1998

SOUTH CAROLINA DEPARTMENT OF COMMERCE

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 1998

	Page
INDEPENDENT AUDITORS' REPORT	1 and 2
FINANCIAL STATEMENTS:	
Combined balance sheet – all fund types and account groups	3
Combined statement of revenues, expenditures and changes in fund balances – all governmental fund types	4
Statement of expenditures – budget and actual – total budgeted funds	5
Notes to financial statements	6 - 25
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	26
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	27 and 28
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	29 and 30
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	31
MANAGEMENT'S RESPONSE	APPENDIX A

INDEPENDENT AUDITORS' 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 South Carolina Department of Commerce (the "Department") as of and for the year ended June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Department of Commerce's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

	December 31, 1997 Public Railways	June 30, 1998 Savannah Valley
Assets	\$26,100,187	\$20,834,512
Liabilities	5,372,113	14,794,158
Revenues	4,742,865	1,380,813
Expenses	2,783,973	4,114,760

Government Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue. The Department has included such disclosures in Note 22 to the financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Department's disclosures with respect to the year 2000 issue made in Note 22. Further, we do not provide assurance that the Department is or will be year 2000 ready, that the Department's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department does business will be year 2000 ready.

As described in Note 1, the financial statements of the South Carolina Department of Commerce 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 South Carolina Department of Commerce, excluding its enterprise funds noted in the above paragraph.

In our opinion, except for the effect on the financial statements of the omissions described in the third paragraph, and except for the effect of such adjustments, if any, as might have been determined had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Commerce as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in Notes 8 and 21 to the financial statements, errors in the application of accounting principles regarding the proper recording of certain assets and liabilities were discovered by management of the Department during the year.

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

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 1999 on our consideration of the South Carolina Department of Commerce's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Columbia, South Carolina
February 1, 1999

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

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

The primary 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. Determine its budget without another government's having the authority to approve and modify that budget.
2. Levy taxes or set rates or charges without approval by another government.
3. Issue bonded debt without approval by another government.

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

The Department reporting entity is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditure of total funds.

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of these three divisions. The reporting entity operates somewhat autonomously, but lacks full corporate power. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina that are attributable to the Department reporting entity defined above.

Fund Accounting

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

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined in fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Department has only one fund category, governmental fund types. The Department reports its activity in two types of governmental fund types, the general fund and the special revenue fund.

Governmental Funds

Governmental funds are used to account for the government's general government activities. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance.

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, member contributions for Coordinating Council for Economic Development activities, contributions for special marketing events, State Capital Improvement Bond proceeds for grants to municipalities for airport improvements, plane and space rental income, charge for services, sales of goods and cost reimbursements. The revenues are used for general ongoing governmental services such as administration, maintenance, aeronautics and economic program development and service.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Funds (Continued)

In April, 1995, the Enterprise Zone Act of 1995 was enacted which gave the Coordinating Council for Economic Development certain powers and duties. Among the powers given to the Coordinating Council for Economic Development is the power to charge an application fee not to exceed \$2,000 to qualifying businesses applying for the tax incentives allowed under the Act. The application fees collected by the Coordinating Council for Economic Development must be expended for administrative, data collection, credit analysis, cost/benefits analysis, reporting and any other obligations pursuant to the Act. The Act allows for the carryforward of unexpended funds collected under the Act to the next fiscal year to be expended for the same purpose.

Special Revenue Fund - Special revenue funds generally record expenditures of revenues that are restricted to specific programs or projects. Revenues are derived from federal and private grants which are restricted for certain purpose. In addition, special fund revenues include proceeds related to the State Economic Development account established by South Carolina Code of Law Section 12-27-1270. This account accumulates the first \$18 million generated from the tax levied in Sections 12-27-1210, 12-27-1220, 12-27-1230, and 12-27-1240. The proceeds are to be used for economic development projects approved through the Coordinating Council for Economic Development. The Coordinating Council for Economic Development establishes project priorities and authorizes all project expenditures. The special revenue fund also includes admissions tax revenue authorized by Section 12-21-2423. An amount equal to one-fourth of the license tax on admissions to major tourism facilities collected by the Department of Revenue is remitted to the Department. The Coordinating Council for Economic Development approves expenditures of these funds specifically for infrastructure development grants. This fund also includes the Aviation Fuel tax which was authorized by Section 55-5-280 which provides for "all monies received from the licensing of airports, landing fields or air schools, the tax on aviation gasoline and fees and other licenses under this chapter. . . to be credited to the "State Aviation Fund" to be used for airport improvements.

Account Groups

The Department uses account groups to establish control over and accountability for its general fund assets and the unmatured principal of its long-term debt.

General Fixed Assets Account Group – General fixed asset acquisitions require the use of governmental fund financial resources and are recorded as expenditures but they are not assets of any fund but of the governmental unit as an instrumentality. Purchased equipment and building additions are recorded as expenditures of the general fund and special revenue fund upon acquisition and simultaneously capitalized at acquisition cost in the general fixed asset account group. Equipment additions which are obtained through installment agreements are capitalized in the general fixed assets account group in the year of acquisition at their total costs, excluding interest charges. Payments of principal and interest on such agreements are recorded as equipment expenditures within other operating expenditures within the applicable subprogram when the installment agreement payments are made.

The current policy of the Department is to capitalize items costing \$1,000 or more, with a minimum expected useful life of four years. Prior to this year, the Department capitalized items costing \$500 or more. Buildings and equipment are valued at historical cost of the Department or the predecessor agency. Assets transferred from another agency are recorded at that agency's acquisition cost. Donated assets are recorded at fair market value at the date of the gift.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Account Groups (Continued)

In accordance with generally accepted accounting principles for governmental entities, a provision for depreciation of general fixed assets is not recorded.

The Aeronautics Division uses state capital improvement bond proceeds to construct infrastructure at airports throughout the State of South Carolina. The Department does not capitalize these assets and treats the issuance of these proceeds as a flow-through to revitalize and stimulate the State's airports and economy. Certain infrastructure assets at the Columbia Metropolitan Airport are leasehold improvements which are paid through permanent improvement funds and are not capitalized.

General Long-Term Debt Account Group – This account group records the outstanding balance of any unmatured general long-term debt obligation which is to be liquidated from governmental fund resources. Such liabilities include the compensated absences liability.

Basis of Accounting

All governmental funds are accounted for using a current financial resource measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The financial statements are presented on the modified accrual basis for measuring financial position and results of operations by fund type.

Governmental Fund Type – Revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues and other fund financial resources are recognized in the accounting period in which they become available and measurable to finance expenditures of the current fiscal period. Federal reimbursement type grants are recorded as revenue when the related expenditures are incurred. Expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due. Further, inventory items are reported as expenditures when consumed and expenditures for insurance and similar services benefiting more than one accounting period are not allocated among accounting periods but are accounted for as expenditures in the year of acquisition.

Interfund Transactions

Transactions that would be treated as revenues and expenditures if they involved external organizations are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. All interfund transactions except loans, quasi-external transactions, and reimbursements are transfers. Nonrecurring or nonroutine permanent transfers of equity are reporting as operating transfers in the period in which the interfund receivable or payable arises.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budget Policy

The Department is granted an annual appropriation for administrative operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget. 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 summary object of expenditure appropriations by program within agency within budgetary fund. Budgetary control is maintained at the summary object of expenditure level of the agency entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist. The Department separates this budget into three divisions within the reporting entity. The budget for the Division of Savannah Valley Development has been excluded from this report. Agencies may request transfers of appropriations among summary object categories and/or among programs within the same budgetary fund.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.9 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 1998 to fiscal year 1998 appropriations in July 1998. Up to 10% of original State General Fund appropriations to an agency may be carried forward and expended in the next fiscal year. Any unexpended State General Fund monies as of June 30th in excess of 10% of original appropriations automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis method of accounting with several exceptions, principally the cash basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 2.

The Statement of Expenditures – Budget and Actual – All Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line item expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures for each fiscal year.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences

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

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 these recoveries to the General Fund of the State.

Fund Balances

The equity section of the balance sheet is comprised of two major fund balance elements: reserved and unreserved, undesignated. Reserves either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriate for future discretionary expenditures. All other current resources are shown as unreserved, undesignated on the balance sheet. The reserves for inventories; notes and interest receivable; and deposits held for rental property presented in the balance sheet are offsets to the related asset accounts.

Use of Estimates

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

NOTE 2. BUDGETARY REPORTING BASIS:

The financial statements prepared on the legally enacted basis differ from the GAAP basis statements. Not all of the Department's accounts in the general fund are included in the Department's total funds authorized by the General Assembly. Consequently, the statement of expenditures – budget and actual – all budgeted funds presents only those funds for which a legal basis budget was enacted. Because the contributions, interest income and related expenditures of the special events account of the general fund are unbudgeted, they are not included in the budgetary comparison statement.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 2. BUDGETARY REPORTING BASIS: (CONTINUED)

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassification from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits and removal of unbudgeted accounts. Other financing uses consisted entirely of unbudgeted accounts and were related to indirect cost and other remissions remitted to the General Fund of the State. The following schedule reconciles the differences.

	Financial Statement Fund Type		Budgetary Fund Category	
	General	Special Revenue	General Fund	Other
Expenditures on GAAP Basis	\$37,414,119	\$35,183,535	\$	\$
Fund classification:				
State appropriation	(33,501,839)		33,501,839	
Federal grants		(33,199,748)		33,199,748
Other	(3,463,180)	(1,983,787)		5,446,967
Unbudgeted accounts	(449,100)			
Change in foreign bank account balances			84,468	
Change in fuel inventory				6,455
Net accruals:				
Personal services and employer contributions			5,158	(37,020)
Expenditures on legal basis	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 33,591,465</u>	<u>\$38,616,150</u>

NOTE 3. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriation Act for the period ended June 30, 1998 as originally enacted by the General Assembly to appropriation revenue as reported in the general fund. The carryforwards are restricted to the intended use with the exception of the 10% carryover of State General Fund appropriations.

Original appropriations	\$12,087,370
Allocations by State Budget & Control Board:	
Employee base pay increase (Proviso 17C.13)	118,002
Allocation to the University of South Carolina for Marine Remote Sensing Device (Proviso 72.81)	(109,000)
Appropriation transfer from South Carolina State Budget and Control Board for total quality management (Proviso 17A.2)	7,125
Supplemental Appropriations from surplus 1996 – 1997 State General Fund Revenues:	
Part III of the 1998 Appropriation Act	
Exchange Rate Shortfall	264,000
Advertising/Marketing	<u>300,000</u>
Adjusted Appropriations, Budgetary Basis	12,667,497
Accrual adjustments:	
Funding for personal services and employer contributions	<u>(5,158)</u>
Accrual basis state appropriation revenue	<u>\$12,662,339</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 3. STATE APPROPRIATION: (CONTINUED)

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

The amount of State funds brought forward to fiscal year 1998 was \$27,648,112. Of the carryforward, \$26,712,976 was reported as a reserved fund balance. Under proviso 72.44, the 1997-1998 Appropriation Act allowed for a carryforward of 10% of the agency's original State General Fund Appropriation to fiscal year 1997-1998. The undesignated carryforward reported in the undesignated fund balance was \$935,136. Pursuant to a June 1995 Joint Resolution, the Department brought forward \$530,477 for airport improvements. Also, pursuant to Parts III, V and VI of the 1996-1997 Appropriation Act, the Department brought forward \$26,182,499 allocated to the Coordinating Council for Economic Development for economic development.

The amount of State funds to be carried over to fiscal year 1999 is \$6,724,143. Of this carryforward, \$5,930,699 is reported as reserved fund balance. Proviso 72.48 of the 1998-1999 Appropriation Act allows for a carryforward of up to a maximum of 10% of the agency's original State General Fund Appropriations to fiscal year 1998-1999. The undesignated carryforward reported in the undesignated fund balance is \$793,444. Pursuant to a June 1996 Joint Resolution to make supplemental appropriations from fiscal year 1996 surplus revenues, the Department carried forward to fiscal year 1999 \$396,975 for county airport improvements. \$5,533,724 allocated to the Coordinating Council for Economic Development for economic development was carried over to fiscal year 1999 was carried over pursuant to Part VI of the 1996-97 Appropriations Act..

NOTE 4. CASH ON DEPOSIT:

All deposits of the Department are under the control of the State Treasurer who, by law, has sole authority for investing state funds, with the exception of two foreign accounts, which are authorized by the State Treasurer.

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

The State's cash management pool consists of a general deposit account and special deposit account. 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.

Investments in the pool are recorded at cost. Amortization of premiums and discounts is allocated and reported as interest income.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 4. CASH ON DEPOSIT: (CONTINUED)

Although the cash management pool includes some long-term investments, it operates as a demand deposit account. 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. With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the carrying amounts, market values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

State law requires full collateralization of all State Treasurer bank accounts. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998, all State Treasurer bank accounts were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

	Category			Bank Balance	Carrying Value
	1	2	3		
Deposits in foreign banks	\$	\$	\$323,539	\$ 323,539	\$ 323,539
Deposits with State Treasurer	<u>72,455,293</u>	<u> </u>	<u> </u>	<u>72,455,293</u>	<u>72,443,468</u>
	<u>\$72,455,293</u>	<u>\$ - 0 -</u>	<u>\$323,539</u>	<u>\$72,778,832</u>	<u>\$72,767,007</u>

NOTE 5. INVENTORIES:

The Department's Aeronautics Division had inventories at June 30, 1998 of \$42,470. The inventories consisted of jet and automotive fuels and is accounted for at the lower of cost or market on a first-in, first-out basis.

NOTE 6. NOTES RECEIVABLE:

The Department has two notes receivable at June 30, 1998.

On May 2, 1994, the Governor approved a joint resolution (H.4955) to loan the City of Charleston \$600,000 for the exclusive benefit of Spoleto Festival, USA. During fiscal year 1996, the City of Charleston was to have remitted the second principal payment of \$200,000, as well as interest of \$20,000, to the State Budget and Control Board.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 6. NOTES RECEIVABLE: (CONTINUED)

The City of Charleston was exempted by a Joint Resolution (Act 501) on May 6, 1996 from making the 1996 payment when due. The loan terms were renegotiated providing for the City of Charleston to repay the loan in three equal installments of principal plus interest with the first payment due on June 30, 1997. The notes receivable at June 30, 1998 consisted of the following:

Note receivable from the City of Charleston, an instrumentality of the State of South Carolina, due in three annual installments of \$133,333 plus interest at 5% annually, with the first installment due June 30, 1997. The payment of principal plus \$13,333 interest receivable due June 30, 1998 was received in July, 1998.	\$266,666
Note receivable from the Division of Public Railways, an enterprise fund of the Department, dated April 26, 1995, payable in five annual installments of \$200,000 plus interest at the rate provided by the State Treasurer's Office on each of the payment due dates (approximately 6%), with the first installment due June 1, 1997	<u>600,000</u>
	<u>\$866,666</u>

NOTE 7. BALANCE OF STATE CAPITAL IMPROVEMENT BOND PROCEEDS AVAILABLE:

In the prior years, the State of South Carolina authorized funds for improvements and expansion of municipal airport facilities within the State using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the municipal entity. The Department records the proceeds as revenue in the general fund. These funds represent a type of pass-through grant to municipal entities, and are reported as allocations to other entities for airport capital improvements. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects.

The total balance receivable for the undrawn portions of the authorizations are reported in the balance sheet as "Balance of state capital improvement bond proceeds available". A summary of the balances available from these authorizations as of June 30, 1998 follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1998</u>	<u>Balance Authorized June 30, 1998</u>
R256 of 1991	\$ 1,016,250	\$ 666,158	\$146,312	\$ 203,780
538 of 1986	3,000,000	2,980,206	19,794	- 0 -
638 of 1988	3,500,000	3,478,006	21,994	- 0 -
111 of 1997	<u>3,000,000</u>	<u> </u>	<u>707</u>	<u>2,999,293</u>
Total	<u>\$10,516,250</u>	<u>\$7,124,370</u>	<u>\$188,807</u>	<u>\$3,203,073</u>

Also, see Note 21 for \$200,000 reduction in amount authorized under Act 111 of 1997.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 8. CHANGES IN GENERAL FIXED ASSETS:

A summary in changes in general fixed assets for the fiscal year ended June 30, 1998 follows:

	Balance, July 1, 1997	Prior Period Adjustment	Additions	Deletions	Balance, June 30, 1998
Buildings	\$ 2,602,038		\$	\$	\$ 2,602,038
Equipment	<u>7,478,227</u>	(189,140) (C)	<u>2,874,951 (A)</u>	<u>1,943,772 (B)</u>	<u>8,220,266</u>
Total general fixed assets	<u>\$10,080,265</u>	<u>\$(189,140)</u>	<u>\$2,874,951</u>	<u>\$1,943,772</u>	<u>\$10,822,304</u>

- (A) Includes \$75,347 of transfers from other State agencies.
 (B) Includes \$326,788 in deletions due to changes in capitalization policy as discussed in Note 1. The balance of equipment was reduced for the cost of assets on hand at June 30, 1997 that did not meet the new capitalization threshold. Deletions also include \$1,157,520 attributable to the airplane sold in the current year.
 (C) The prior period adjustment of \$189,140 is to adjust the carrying value to reflect assets disposed of in the prior year and not removed from the detailed listing.

NOTE 9. 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 10. OPERATING LEASES:

The Department has entered into operating leases for non-state owned land, office space and some office equipment. These leases are for both foreign and domestic offices. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 2002 through 2028. 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 \$754,000 for the year ended June 30, 1998. The following is a schedule by years of future minimum rental payments at June 30, 1998 required under the noncancellable operating lease agreements.

<u>Year</u>	<u>Amount</u>
1999	\$ 687,614
2000	689,187
2001	588,021
2002	583,171
2003	67,831
Thereafter	<u>1,161,240</u>
Total	<u>\$3,716,064</u>

The Department paid the State Budget and Control Board approximately \$133,000 for vehicle rentals on year to year leases. These leases are generally renewed each year.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 11. CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP:

The following is a summary of changes in general long-term debt for the year ended June 30, 1998:

	Balances, July 1, 1997	Additions	Reductions	Balances, June 30, 1998
Compensated Absences and Related Benefits	<u>\$680,654</u>	<u>\$78,166</u>	<u>\$ 0</u>	<u>\$758,820</u>

Changes in accrued compensated absences and related benefits are shown at net since details to support gross increases and decreases are not available.

NOTE 12. OTHER FUND BALANCE RESERVATIONS:

Other fund balance reservations carried forward as part of the general fund were restricted in the amount of \$2,078,437. Included in this amount are the following: \$237,472 of aircraft rental and service charges to other state agencies as approved by Proviso 27.6 of the 1998-1999 Appropriation Act carried forward to replace time limit aircraft components; \$88,615 of contributions from Coordinating Council member agencies carried forward as provided by Proviso 27.14 of the 1998-1999 Appropriation Act for operations of the Coordinating Council; \$464,213 carried forward for administrative, data collection, credit analysis, cost-benefit analysis and reporting expenditures under the enabling act for the enterprise zones; \$1,024,096 of proceeds from aircraft sales carried over to be used for purchase of replacement aircraft under Proviso 27.17 of the 1998-1999 Appropriation Act.

NOTE 13. TRANSACTIONS WITH STATE AGENCIES:

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

The Department remitted indirect cost recoveries received under various grants to the State General Fund. In addition, the Department remitted \$8,700 of hanger rental income pursuant to Proviso 50.10 of the 1997-98 Appropriations Act.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; grant services from the Governor's Office; collection of highway taxes levied in South Carolina Code of Laws Sections 12-27-1210, 12-27-1220, 12-27-1230, and 12-27-1240 by the Department of Revenue; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping review and approval of certain budget amendments and other centralized functions.

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

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 13. TRANSACTIONS WITH STATE AGENCIES: (CONTINUED)

The Department provided no material services free of charge to other State agencies during the fiscal year. Services provided for a fee include air transportation and sale of fuel and supplies. Revenues from other State agencies are recognized when goods or services are provided by the Department. Revenues from other State agencies are included in the "Aircraft rental" and "Sale of goods and services" revenue accounts. Significant revenues derived from other State agencies amounted to approximately \$102,000.

State agency members of the Coordinating Council for Economic Development voted not to assess dues to its members beginning with the fiscal year ended June 30, 1995. The Council determined that it would be satisfactorily funded with "allocations from other state agencies". These revenues are collected and remitted to the Department by the Department of Revenue. The Coordinating Council for Economic Development administers and has responsibility for the State Economic Development account. These revenues are collected and remitted to the Department by the Department of Revenue. The member agencies of the Council are the Department of Agriculture, the State Ports Authority, the Department of Revenue, the Department of Commerce – State Division of Development, the Department of Parks, Recreation and Tourism, Santee Cooper, the Jobs-Economic Development Authority, the State Board of Technical and Comprehensive Education, the State Budget and Control Board – Office of Research and Statistical Services, and the Employment Security Commission. In addition, the Council receives allocations from the Department of Transportation for various ongoing programs.

The Department received \$2,000,000 from the South Carolina Department of Transportation under an agreement to provide funding for an interchange and roadway improvements in Florence County. \$1,530,372 was spent as of June 30, 1998. The \$2,000,000 is reported as Allocations from Other State Agencies revenue category. The remaining \$469,628 is included in the reserved for State Economic Development projects in the special revenue fund.

NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS:

All employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division 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 System 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 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 SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service. The benefit formula for full benefits effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of creditable service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1996, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 1998, 1997, and 1996 were approximately \$484,000, \$440,000 and \$419,000, 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 \$9,600 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Department for pension and group-life benefits are reported as employer contributions expenses.

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

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the retirement 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 plan(s) is limited to the contribution requirements for the applicable year from 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 the plans.

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

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

Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other applicable revenue sources of the Authority 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. Currently, approximately 19,200 State retirees meet these eligibility requirements.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 15. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS:

The Department recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$342,477 for active employees for the year ended June 30, 1998. As discussed in Note 14, the Department paid approximately \$123,000 applicable to the 1.916% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

NOTE 16. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. 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.

Compensation deferred under the Section 401 (k) and 403 (b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets to the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 17. COMMITMENTS:

At June 30, 1998, the Department had an open letter of credit with the Duetsche Bank of Frankfurt. This letter of credit is to secure rental of the Frankfurt office and is in the amount of 31,973 DM or 18,319 U.S. dollars. The letter of credit expires April 15 of every year. No draws had been made on this letter of credit at June 30, 1998.

The Department engages in a variety of development projects. The following is a list of outstanding project commitments at June 30, 1998. All project commitments are to local government entities which are responsible for contracting with specific vendors to achieve the project objectives.

All project numbers preceded by an "A" are airport projects funded by state capital improvement bond proceeds, which are discussed in Note 7. The total of all such project commitments at year end is \$203,774.

The listing of commitments below also includes the total amount of State Economic Development program funds contractually committed to development projects.

Project Description	Project Number	Budget	1998 Expenditures	Total To Date	Balance
Orangeburg Municipal Airport	A247	\$ 34,783	\$ 13,825	\$ 16,756	\$ 18,027
Pickens County Airport	A250	47,571			47,571
Lancaster County McWhiter Field	A254	24,319	18,990	18,990	5,329
Walterboro Airport	A255	42,400			42,400
Allendale – Demolish Existing Facility	A265	5,000	3,250	3,250	1,750
Darlington County Airport	A268	48,075			48,075
Georgetown County Airport	A269	40,622			40,622
Hartsville County Airport		389,727	20,000	389,727	- 0 -
York County Airport		500,000	113,502	113,502	386,498
Chester County Airport		300,000	- 0 -	289,523	10,477
State Economic Development		30,000,000	22,179,147	25,996,648	4,003,352
Total		<u>\$31,432,497</u>	<u>\$22,348,714</u>	<u>\$26,828,396</u>	<u>\$4,604,101</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 18. RISK MANAGEMENT:

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

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

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

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

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

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

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

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 18. RISK MANAGEMENT: (CONTINUED)

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

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

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

NOTE 19. OPERATING TRANSFERS:

The Department transferred \$60,000 from the Special Revenue Fund to the General Fund to use for the development of the South Carolina Infrastructure-Economic Development Planning Project as provided for in Proviso 50.3 of the 1997-1998 Appropriations Act. Pursuant to Proviso 27.3 of the 1998-99 Appropriations Act, the Department carried forward \$30,549 to fiscal year 1999 for this purpose. In addition, \$300,000 was transferred from the Special Revenue Fund by the Coordinating Council for Economic Development to the General Fund to be used for administration.

The Department transferred \$35,413 from the Special Revenue Fund to the General Fund to reimburse it for prior year salaries and related benefits.

NOTE 20. CONTINGENT LIABILITIES:

The various federal programs administered by the Department for the fiscal year 1998 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.

NOTE 21. PRIOR PERIOD ADJUSTMENTS:

The following adjustments were required to be made to various balance sheet accounts to correct errors involving the application of accounting principles recording the proper recording of certain assets and liabilities as of June 30, 1997.

General fixed assets property and equipment were overstated and deletions for the year ended June 30, 1997 were understated by \$189,140 as discussed in Note 8.

The Department's balance sheet as of June 30, 1997 included a \$200,000 receivable from state capital improvement bonds that was not due to the Department. This resulted in proceeds from state capital improvement bonds reported in the general fund to be overstated by \$200,000 for the year ended June 30, 1997. See Note 7.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 22. THE YEAR 2000 ISSUE:

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Department's control but also the systems of other entities with which the Department transacts business, including the central state accounting systems which are used to make all payroll and other payments. Some of the Department's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Department.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business, including the central state accounting systems, will be year 2000 ready.

In response to a requirement of the South Carolina Budget and Control Board, the Department began in 1997 a continuing assessment of the year 2000 issue and its effects on the operations of the Department. The Department has continued to monitor on a quarterly basis the need for, and progress of, remediation efforts, and the status of contingency plans developed to address the possibility that year 2000 failures might adversely affect systems critical to the Department's operations.

The Department has identified, to date, 19 applications within the Department which could be affected by the year 2000 issue. These systems affect financial and personnel aspects of the Department's operations, as well as, avionics and navigational equipment on the Department's aircraft. The Department is subjecting these systems and equipment to the following stages of work to address year 2000 issues:

- **Assessment stage** – Identifying the systems and components for which year 2000 compliance work may be needed.
- **Remediation stage** – Making changes to systems and equipment.
- **Validation/testing stage** – Validating and testing the changes that were made during the remediation stage.

The Department has completed the assessment stage for all of its identified applications. Of these 19 identified systems, 11 are deemed 2000 compliant. Two will be replaced and the other 6 will be made 2000 compliant by December 31, 1999.

SOUTH CAROLINA DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
U.S. Department of Housing and Urban Development		
Direct Program:		
Community Planning and Development Community Development Block Grants/State's Program	14.228	32,409,962
U.S. Department of Transportation		
Direct Program:		
Federal Aviation Administration Airport Improvement Program	20.106	239,335
Federal Railroad Administration		
Direct Program:		
Local Rail Freight Assistance (Passed through to South Carolina Department of Commerce - Division of Public Railways)	20.308	6,224
U.S. Department of Commerce		
Direct Program:		
Economic Development Administration Economic Development - Technical Assistance	11.303	25,000
U.S. Department of Labor		
Employment and Training Administration Passed through from South Carolina Employment Security Commission:		
Job Training Partnership Act	17.250	45,018
Environmental Protection Agency		
Direct Program:		
Solid Waste Management Assistance	66.808	27,377
Appalachian Regional Commission		
Direct Programs:		
Appalachian Supplements to Federal Grant-in-Aid	23.002	338,613
Appalachian State Research, Technical Assistance and Demonstration Projects	23.011	24,358
U.S. Department of Energy		
Direct Program:		
Energy Grant	N/A	<u>120,000</u>
TOTALS		<u>\$33,235,887</u>

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

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

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

We have audited the financial statements of South Carolina Department of Commerce (the Department) as of and for the year ended June 30, 1998, and have issued our report thereon dated February 1, 1999 which was qualified because insufficient audit evidence exists to support the Department's disclosures with respect to the year 2000 issue and the omission of the Department's enterprise funds. We conducted our audit in accordance with generally accepted auditing standards 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 assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 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 risks 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 above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through agencies. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State Auditor's Office, is a matter of public record.

Columbia, South Carolina
February 1, 1999

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

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

Compliance

We have audited the compliance of South Carolina Department of Commerce (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 1998. The Department's major federal program is 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 its major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1998.

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.

This report is intended for the information of management, federal awarding agencies and pass-through agencies. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State Auditor's Office, is a matter of public record.

Columbia, South Carolina
February 1, 1999

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998**

SUMMARY OF AUDITORS' RESULTS

1. A qualified opinion dated February 1, 1999 on the financial statements of the Department for the year ended June 30, 1998 was issued.
2. One reportable condition relating to the audit of the financial statements is reported below.
3. No instances of noncompliance which were material to the financial statements were disclosed during the audit.
4. An unqualified opinion on compliance for the major program dated February 1, 1999 was issued.
5. There are no findings required to be reported under Section .510(a) of OMB Circular A-133.
6. The major program of the Department is the Community Development Block Grant – CFDA #14.228
7. The dollar threshold used to distinguish between Type A and Type B programs was \$997,077.
8. The Auditee was not determined to be a low risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

1. **Condition:** The Department did not remove the cost of an airplane valued at approximately \$1,160,000 sold during the year. In addition, the Department had not timely removed approximately \$189,000 in fixed asset retirements in the prior fiscal year.

Effect: Failure to timely remove fixed assets results in an overstatement of the account balance.

Criteria: Generally accepted accounting principles dictate that amounts reported as general fixed assets represent items actually owned by the Department.

Recommendation: We recommend that the Department implement procedures to ensure that all fixed asset retirements are timely recorded in the accounting records.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There are no findings and questioned costs for federal awards that are required to be reported under Section .510(a) of OMB Circular A-133.

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

The Department of Commerce has reviewed the finding in the FY-98 audit concerning over stating the Fixed Assets account balance. The department acknowledges the error and has implemented procedures to prevent this oversight in the future.