

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

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June 28, 2004

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, 2003, 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,

A handwritten signature in cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 governmental activities, each major fund and the aggregate remaining fund information 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, 2003, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, 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, 2003 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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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The Department discovered errors in the application of accounting principles regarding the recording of accounts receivable for sales of goods and services as of June 30, 2002 and costs attributable to buildings and improvements owned as of June 30, 2002 and made applicable adjustments. The adjustments and corrections of these errors were accounted for as prior period adjustments and are detailed in Note 18.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2004, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Rogard y Laban, PA*

March 31, 2004

# 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, 2003. Please read it together with the Department's financial statements, which follow this section.

## 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 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.

There are two entity-wide financial statements:

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: 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 the cost of their services or goods by charging fees to customers. At this time the Department did not have services that qualified as Business-type 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 Component units.

## 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 two years based on the information included in the entity-wide financial statements.

	Exhibit 1	
	2002 <u>As Restated</u>	<u>2003</u>
Assets		
Current and Other	\$83,263,026	\$52,899,632
Capital	<u>70,324,260</u>	<u>48,326,783</u>
Total assets	<u>153,587,286</u>	<u>101,226,415</u>
Liabilities		
Long-term liabilities	8,796,844	27,971,761
Other liabilities	<u>60,025,733</u>	<u>41,247,132</u>
Total liabilities	<u>68,822,577</u>	<u>69,218,893</u>
Net Assets		
Invested in capital assets, net of debt	70,324,260	25,949,851
Restricted	23,873,310	17,591,151
Unrestricted	<u>(9,432,861)</u>	<u>(11,533,480)</u>
Total net assets	<u>\$84,764,709</u>	<u>\$32,007,522</u>
Total liabilities and net assets	<u>\$153,587,286</u>	<u>\$101,226,415</u>

### Net Assets

As noted earlier, net assets may serve, over time, as a useful indicator of the Department's financial position. For the 2002-2003 accounting year, the Department's net assets totaled \$32.008 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 \$11,533,480.

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 55% 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 bonds proceeds for capital projects at \$2,480,169.

The reduction in the overall Net Assets valuation was caused by the separation of the Division of Motor Vehicles (DMV) from the Department late in the 2002-2003 accounting year which resulted in a \$42,339,741 transfer of net assets to the new state agency.

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

Exhibit 2  
Statement of Activities – Condensed

	2002 <u>(As Restated)</u>	<u>2003</u>
Program Revenues		
Charges for services	\$ 46,637,008	\$ 42,128,834
Operating grants and contributions	37,146,398	33,337,423
Capital grants and contributions	4,363,174	4,690,048
General Revenues		
State appropriations	113,932,704	98,333,009
Taxes and fees	116,757,686	115,205,172
Other	<u>5,428,398</u>	<u>4,574,527</u>
Total Revenues	<u>324,265,368</u>	<u>298,269,013</u>
Expenses		
Public Safety programs	<u>(193,115,617)</u>	<u>(201,536,796)</u>
Excess before transfers and remittances and special items	<u>131,149,751</u>	<u>96,732,217</u>
Transfers and remittances		
General Fund of the State	(53,601,686)	(49,960,673)
SC Transportation Infrastructure Bank	(54,334,665)	(47,642,207)
Other	<u>( 8,936,758)</u>	<u>( 9,546,783)</u>
Total	<u>(116,891,109)</u>	<u>(107,149,663)</u>
Special Items:		
Transfer of various assets to Department of Motor Vehicle		<u>(42,339,741)</u>
Increase (decrease) in net assets	<u>14,258,642</u>	<u>(53,474,501)</u>
Net assets, beginning of year	<u>70,506,067</u>	<u>84,764,709</u>
Net assets, end of year	<u>\$84,764,709</u>	<u>\$32,007,522</u>

### Changes in Net Assets

The Department's net assets decreased 62% or \$53.474 million over the prior year (as restated). The majority of this decrease is related to the separation of DMV at the end of the fiscal year.

### Governmental Activities

Governmental activities' revenues were derived from Program Revenues and General Revenues. Program Revenues experienced a decrease due to losing the last month of revenue when DMV separated from the Department, and when several federal grant program funds were not awarded as in the previous year. The General Revenues section experienced a decrease for the year because of more budget reductions in state appropriations. Tax and fee collections continued at a slower than predicted rate due to the continued economic slowdown.

Governmental activities' expenses were associated with providing the various services the Department gave to the citizens of the state. Program expenses associated with program revenues were \$201.537 million. The major cost excluding depreciation were attributed to Highway Patrol and the Division of Motor Vehicles with \$71.906 million and \$53.292 million respectively. The next two highest outflows of funds was \$47.642 million transfer to the State Infrastructure Bank and a \$49.961 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. Within the fund financial statement, the focus is on 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 \$18.556 million, a decrease of \$10.81 million from the prior year. The unreserved fund balance is now running a deficit of \$3.530 million.

The General Fund is the operating fund of the Department. It includes the majority of resources for the Department such as state appropriations, license fees and various types of fines and taxes. It also includes all of the uses of funds, which are categorized by program area. The other financing sources and uses include the remittance back to the State's General Fund, along with the funding for the purchase of the Blythewood building. This year a special item accounting for the separation of DMV from DPS was also included in the reporting structure. The major portion of the decrease in the Department's fund balance was attributable to the separation of DMV from the Department.

### IV. Budgetary General Fund Highlights

The Department again experienced significant budgetary cuts during the year. The majority of the decreases continued to occur in the state appropriation areas. The original budget request was \$109 million, but the final state appropriation was only \$98.3 million; a decrease of 10%. This decrease followed a 10% decrease from the previous year. Again this year, 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. For more information on the budget shortfalls see the discussion in the economic factors section below.

### V. Capital Assets and Debt Administration

#### Capital Assets

At the end of the 2002-2003 accounting year, the Department had \$48.327 million invested in capital assets. This represents a net decrease (including additions and reductions) of \$21.997 million, or a decrease of 31.28% over the previous accounting year. Two major events occurred during the year that made up the majority of the activity in the capital account. First, the DMV separation removed over \$33 million in assets. Second, DPS purchased the new headquarters building for \$24 million.

### Long-term Debt

As of the end of the fiscal year in 2003, the Department's most material and significant debt was \$24.705 million in revenue bonds issued in January of 2003. The revenue bonds have a payback period of 15 years. The payment structure requires interest payments the 1<sup>st</sup> of July and January each year, with a principal payment due the first of each January.

## VI. Economic Factors

### Continued State Appropriated Budget Decreases

At the beginning of FY 2003 – 2004, the Department saw its state appropriated budget reduced another \$10 million. The Department's beginning base budget was only \$90.204 million. The effect of this reduction was that the Department has seen its state appropriated budget reduced over \$30 million in the last 3 years.

### Additional Revenues and Expenditures

To offset the continued loss in state appropriations funding, the state legislature has passed new legislation or amended current laws and provisos allowing the Department to increase its earmarked revenues. The Highway Patrol and other law enforcement divisions expected to see new earmarked revenues from the collection of additional license fees and fines. Additional reductions in staffing were also possible if the budget estimates did not match revenue collections. The final separation of administrative staffing with DMV was also expected to reduce the Department's expenditures for the coming year.

### Blythewood Building

The Department continued to try and finalize the consolidation of the various entities into the new headquarters building. It was required to change its original plans for the building when DMV separated from DPS. The Department has attempted to find a state tenant to occupy the unused space in the headquarter building and to assist with paying for the maintenance and daily operating costs.

## 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 you 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, 2003**

<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 29,241,741
Receivables:	
Federal government	10,263,987
General Fund of the State	6,207,608
State agencies	34,533
Other entities	701,581
Prepaid expenses	48,451
Accrued interest receivable	132,131
Inventories	<u>2,196,493</u>
Total current assets	<u>48,826,525</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	3,900,142
Capital assets, net of accumulated depreciation	48,326,783
Other assets:	
Issuance costs of long-term debt, net of accumulated amortization	<u>172,965</u>
Total non-current assets	<u>52,399,890</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 101,226,415</u></u></b>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY  
STATEMENT OF NET ASSETS (CONTINUED)  
JUNE 30, 2003**

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Current liabilities:

Accounts payable	\$ 7,910,802
Intergovernmental payables:	
Due to State agencies	10,823,545
Contract retainages payable	169,714
Accrued payroll and related liabilities	7,344,394
Accrued interest payable	543,100
Due to General Fund of the State	3,316,012
Installment purchase agreement payable to State agency	1,203,428
Accrued compensated absences and related benefits	5,414,363
Deferred revenue	<u>4,521,774</u>
Total current liabilities	<u>41,247,132</u>

Noncurrent liabilities:

Installment purchase agreement payable to State agency, including unamortized premium and net of current portion	24,876,112
Accrued compensated absences and related benefits, net of current portion	<u>3,095,649</u>
Total noncurrent liabilities	<u>27,971,761</u>

**TOTAL LIABILITIES**

69,218,893

**Net assets:**

Invested in capital assets, net of related debt	25,949,851
Restricted:	
Debt service	1,419,973
Bond proceeds for capital projects and other purposes	2,480,169
Capital projects	416,144
Security services	446,867
Hall of Fame	213,418
Court fines	2,144,000
Confiscated funds / court ordered	281,684
Size and weight stabilization program	1,133,727
Weigh stations	2,425,130
Victim restitution	909,090
Motor carrier fees - transport police	519,455
Building fund	1,743,238
Miscellaneous revenues	1,051,629
International fuel tax operations	416,556
Drug awareness and resistance education	20,132
Certificate of title fees / highway patrol	970,037
Uninsured motorist	682,391
Seized monies / law enforcement	317,511
Unrestricted (deficit)	<u>(11,533,480)</u>

**TOTAL NET ASSETS**

32,007,522

**TOTAL LIABILITIES AND NET ASSETS**

\$ 101,226,415

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Public Safety	\$ 201,536,796	\$ 42,128,834	\$ 33,337,423	\$ 4,690,048	\$ (121,380,491)
General revenues:					
State appropriations					98,333,009
Allocations from other state agencies					210,000
Taxes and fees					115,205,172
Interest/investment income					42,368
Gains on sales of capital assets					4,322,159
Total general revenues					218,112,708
Transfers and remittances:					
General Fund of the State					(49,960,673)
Counties					(543,789)
South Carolina Budget and Control Board					(500,000)
South Carolina Transportation Infrastructure Bank					(47,642,207)
South Carolina Department of Transportation					(6,822,940)
South Carolina Department of Education					(1,163,678)
South Carolina Department of Insurance					(429,351)
South Carolina Department of Revenue					(87,025)
Total transfers and remittances					(107,149,663)
Special item:					
Transfer of various assets, net of liabilities to South Carolina Department of Motor Vehicles (a State agency established June 5, 2003)					(42,339,741)
Total special item					(42,339,741)
Change in net assets					(52,757,187)
Net assets - beginning, as restated					84,764,709
Net assets - ending					\$ 32,007,522

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2003**

<b>ASSETS</b>	General Fund	Federal Fund	Capital Projects Fund	Totals
Current assets:				
Cash and cash equivalents	\$ 21,713,003	\$ 4,656,624	\$ 2,872,114	\$ 29,241,741
Receivables:				
Federal government		10,263,987		10,263,987
State agencies	34,533			34,533
Other	701,581			701,581
General Fund of the State	6,207,608			6,207,608
Prepaid expenses	48,451			48,451
Accrued interest receivable	11,053	68,554	52,524	132,131
Inventories	2,196,493			2,196,493
Total current assets	<u>30,912,722</u>	<u>14,989,165</u>	<u>2,924,638</u>	<u>48,826,525</u>
Non-current assets:				
Restricted assets:				
Cash and cash equivalents			3,900,142	3,900,142
Total non-current assets			<u>3,900,142</u>	<u>3,900,142</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 30,912,722</u></u>	<u><u>\$ 14,989,165</u></u>	<u><u>\$ 6,824,780</u></u>	<u><u>\$ 52,726,667</u></u>

**See accompanying Notes to Financial Statements.**

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

<b>LIABILITIES AND FUND BALANCES</b>	<u>General Fund</u>	<u>Federal Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	\$ 3,885,994	\$ 3,604,433	\$ 420,375	\$ 7,910,802
Intergovernmental payables:				
Due to State agencies	4,511,039	6,312,506		10,823,545
Contract retainages payable			169,714	169,714
Accrued payroll and related liabilities	7,009,997	334,397		7,344,394
Due to General Fund of the State	3,099,957	216,055		3,316,012
Deferred revenue		4,521,774		4,521,774
Accrued interest payable			84,482	84,482
<b>TOTAL LIABILITIES</b>	<u>18,506,987</u>	<u>14,989,165</u>	<u>674,571</u>	<u>34,170,723</u>
<b>Fund Balances:</b>				
Reserved:				
Debt service			1,419,973	1,419,973
Bond proceeds for capital projects and other purposes			2,480,169	2,480,169
Prepaid expenses	48,451			48,451
Inventories	2,196,493			2,196,493
Capital projects	416,144		2,250,067	2,666,211
Security services	446,867			446,867
Hall of Fame	213,418			213,418
Court fines	2,144,000			2,144,000
Confiscated funds / court ordered	281,684			281,684
Size and weight stabilization program	1,133,727			1,133,727
Weigh stations	2,425,130			2,425,130
Victim restitution	909,090			909,090
Motor carrier fees - transport police	519,455			519,455
Building fund	1,743,238			1,743,238
Miscellaneous revenues	1,051,629			1,051,629
International fuel tax operations	416,556			416,556
Drug awareness and resistance education	20,132			20,132
Certificate of title fees / highway patrol	970,039			970,039
Uninsured motorist	682,391			682,391
Seized monies / law enforcement	317,511			317,511
Unreserved (deficit)	<u>(3,530,220)</u>			<u>(3,530,220)</u>
<b>TOTAL FUND BALANCES</b>	<u>12,405,735</u>		<u>6,150,209</u>	<u>18,555,944</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 30,912,722</u>	<u>\$ 14,989,165</u>	<u>\$ 6,824,780</u>	<u>\$ 52,726,667</u>

**See accompanying Notes to Financial Statements.**

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

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances - governmental funds		\$ 18,555,944
Amounts reported for governmental activities in the statement of net assets are different because:		
Liabilities that are not due and payable in the current year are not reported in the governmental funds:		
Installment purchase agreement payable to State agency, including unamortized premium	\$ 26,079,540	
Accrued interest payable	458,618	
Accrued compensated absences and related benefits	<u>8,510,012</u>	(35,048,170)
Assets are capitalized and depreciated or amortized in statement of net assets and are charged to expenditures in the governmental fund:		
Capital assets, net of accumulated depreciation	48,326,783	
Issuance costs on long-term debt, net of accumulated amortization	<u>172,965</u>	<u>48,499,748</u>
Net assets		<u><u>\$ 32,007,522</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

	General Fund	Federal Fund	Capital Projects Fund	Totals
<b>REVENUES:</b>				
State appropriations	\$ 98,333,009	\$	\$	\$ 98,333,009
Allocations from other State agencies	185,000		25,000	210,000
Driver and motor vehicle licenses, fees, taxes and penalties	112,786,578			112,786,578
Federal grants		32,948,262		32,948,262
Court fines and assessments	10,369,935			10,369,935
Sales of goods and services/cost recoveries	22,245,894			22,245,894
Financial responsibility	4,087,345			4,087,345
Vehicle size and weight violation fines	1,372,767			1,372,767
Victim restitution	453,281			453,281
IFTA operating	969,210			969,210
Drug confiscation's	571,161			571,161
Motor carrier registrations and fees	2,418,594			2,418,594
Hall of Fame	239,101			239,101
Building fund	4,365,771			4,365,771
Interest/investment income	42,368	389,161	324,277	755,806
Other sources	1,820,140			1,820,140
	<u>260,260,154</u>	<u>33,337,423</u>	<u>349,277</u>	<u>293,946,854</u>
<b>TOTAL REVENUES</b>				
<b>EXPENDITURES:</b>				
General administration	14,710,641		23,525,347	38,235,988
Bureau of Protective Services	3,603,579	23,020	25,883	3,652,482
Highway Patrol	70,378,157	1,203,602	324,870	71,906,629
Transport Police	8,549,701	3,656,661	101,104	12,307,466
Criminal Justice Academy	7,670,822	339,551	28,946	8,039,319
Hall of Fame	162,768		51,667	214,435
Division of Motor Vehicles	53,012,381	42,543	237,484	53,292,408
Office of Safety and Grant Programs		27,455,054	25,883	27,480,937
Debt service:				
Principal	2,288,166			2,288,166
Cost of issuance			178,929	178,929
Allocations to counties	543,789			543,789
Allocations to other State Agencies:				
SC Budget and Control Board	500,000			500,000
SC Transportation Infrastructure Bank	47,642,207			47,642,207
SC Department of Transportation	6,822,940			6,822,940
SC Department of Education	1,163,678			1,163,678
SC Department of Revenue	87,025			87,025
SC Department of Insurance	429,351			429,351
Other:				
Hunley security	101,635			101,635
	<u>217,666,840</u>	<u>32,720,431</u>	<u>24,500,113</u>	<u>274,887,384</u>
<b>TOTAL EXPENDITURES</b>				
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>42,593,314</u>	<u>616,992</u>	<u>(24,150,836)</u>	<u>19,059,470</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

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

	General Fund	Federal Fund	Capital Projects Fund	Totals
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers	957,664		(957,664)	
Remitted to the General Fund of the State	(49,272,327)			(49,272,327)
Indirect cost remitted to the General Fund of the State		(616,992)		(616,992)
Transfer to the General Fund of the State	(70,904)			(70,904)
Proceeds from sales of capital assets	7,198,706			7,198,706
Proceeds from installment purchase agreement payable to State agency			24,705,000	24,705,000
Premium on installment purchase agreement			1,374,539	1,374,539
Lapsed to General Fund of the State	(450)			(450)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(41,187,311)</u>	<u>(616,992)</u>	<u>25,121,875</u>	<u>(16,682,428)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	1,406,003		971,039	2,377,042
<b>SPECIAL ITEM:</b>				
Transfer of various assets, net of liabilities to the South Carolina Department of Motor Vehicles, a State agency established June 5, 2003	(12,134,391)			(12,134,391)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES, OTHER FINANCING USES AND SPECIAL ITEM</b>	(10,728,388)		971,039	(9,757,349)
<b>FUND BALANCES, BEGINNING, as restated</b>	<u>23,134,123</u>		<u>5,179,170</u>	<u>28,313,293</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 12,405,735</u>	<u>\$</u>	<u>\$ 6,150,209</u>	<u>\$ 18,555,944</u>

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

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES:**

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental funds before special item	\$ 2,377,042
Special item:	
Transfer of various assets, net of liabilities to the South Carolina Department of Motor Vehicles, a State agency established June 5, 2003	
From governmental funds	\$ 12,134,391
Capital assets, net of accumulated depreciation	33,077,875
Liability for accrued compensated absences and related benefits	<u>(2,872,525)</u>
	(42,339,741)
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets are reported as expenditures in the governmental funds and are reported as capital assets in the statement of net assets	28,046,412
Proceeds from installment purchase agreement payable to State agency are reported as other financing sources in the governmental funds and are reported as a liability in the statement of net assets	(26,079,540)
Payments on long-term debt are reported as expenditures in the governmental funds and are reported as a reduction of liabilities in the statement of net assets	2,288,166
Costs of issuance of long-term debt are reported as expenditures in the governmental funds and are reported as other assets in the statement of net assets	178,929
Accrued interest payable on long-term debt is reported as an expense in the statement of activities and is not reported in the governmental funds	(458,618)
Depreciation of capital assets is reported as an expense in the statement of activities	(14,089,467)
Amortization of issuance costs is reported as an expense in the statement of activities	(5,964)
Decrease in accrued compensated absences is reported as a reduction of expenses in the statement of activities	202,141
Costs less accumulated depreciation of capital assets that are disposed of during the year are reported as a reduction of proceeds on sales of capital assets and are reported as gains on sales of capital assets in the statement of activities	<u>(2,876,547)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b><u><u>\$ (52,757,187)</u></u></b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2003**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and cash equivalents	<u>\$ 5,414</u>
Total assets	<u><u>\$ 5,414</u></u>
<b>LIABILITIES:</b>	
Amounts held for others:	
Evidence	\$ 500
Dual employment	<u>4,914</u>
	<u>5,414</u>
Total liabilities	<u><u>\$ 5,414</u></u>

**See accompanying Notes to Financial Statements.**

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

##### Reporting Entity

The South Carolina Department of Public Safety (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 Division 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 activities. 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 included 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.

Effective June 5, 2003, the South Carolina Department of Motor Vehicle was established as an administrative agency of State government pursuant to Section 56-1-5 of the South Carolina Code of Laws, as amended. The Section included provisions to transfer all functions, powers, duties, responsibilities, and authority statutorily exercised by the Motor Vehicle Division and the Motor Carrier Services Unit within the Department to the South Carolina Department of Motor Vehicles; to provide for the appointment of an executive director by the Governor and assign his duties and responsibilities; and, all applicable sections of the South Carolina Code of Laws, as amended, were amended to delete all functions and responsibilities of the Department being transferred to the South Carolina Department of Motor Vehicles; to provide that the employees, funds, appropriations, assets, liabilities, bonded indebtedness, real and personal property, contractual rights, and obligations of the Motor Vehicle Division and the Motor Carrier Services Unit of the Department be transferred to and become part of the South Carolina Department of Motor Vehicles. The transfer has been reported in the accompanying financial statements as a special item.

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.

A 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 on a primary entity that holds one or more of the following powers:

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

- (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.

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 and results of operations of only that portion of funds of the State of South Carolina that are attributable to the transactions of the Department as defined above and do not include any other funds of the State of South Carolina.

#### **Department-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.

#### Department-Wide Financial Statements:

The Department-wide financial statements are prepared on the accrual basis method of accounting and include a "Statement of Net Assets" which discloses the financial position of the Department; and a "Statement of Activities", which demonstrates the degree to which the direct expenses of the Department's programs are offset by program revenues.

The Department-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Department.

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.

#### Fund Financial Statements:

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.

#### **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 earmarked 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, 2003

#### 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, certificates of title, 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, 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, and safety program development.

The following Provisos of the 2002-2003 Appropriations Act are specific to the Department which allow it to use, retain and carryover 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, insurance claim receipts, tuition from military breathalyzer courses, coin operated telephones, fees for E-911 and coroner training, psychological screening, private college tuition, canteen operations and building management services, and regional and national marketing of television series shall be retained and expended in budgeted operations for food services, expansion of the Department's educational television program, professional training, fees and dues, clothing allowances and other related services, or programs as the Director of the Department may deem necessary.

- **36.5            Cost Recovery Fees/Sales of Photos or Digitized Images**

The Department may collect processing fees and fees to recover the costs of the production, purchase, handling and mailing of documents, publications, records and data sets. The Department may not sell, provide or otherwise furnish to private parties, copies of photographs, whether digitized or not, taken for the purpose of a driver's license or personal identification card. Photographs and digitized images from a driver's license or personal identification card are not considered public records. Funds derived from these sources shall be retained by the Department. This activity was transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

- **36.6 License Fees**

All revenues derived under Title 56 of the South Carolina Code of Laws, as amended that are credited to the Department must be credited to the General Fund of the State, except for those fees collected to recover the costs of the production, purchase, handling and mailing of documents, publications, records, and data sets, those fees collected under Sections 56-5-2951 and 56-1-286 for supplying and maintaining video cameras in law enforcement vehicles used for traffic enforcement and the issuance of the alcohol restricted license, those fees designated under Section 56-1-1320 to be used by the Department to hire, train, and equip members of the highway patrol, and the increases in revenues from fees imposed pursuant to various sections of the South Carolina Code of Laws, as amended, over rates in effect June 30, 2001 to be used by the Department to defray the expenses of the Division of Motor Vehicles. The revenues attributable to the increases in fees over rates in effect as of June 30, 2001 will be attributable to the South Carolina Division of Motor Vehicles beginning June 5, 2003 when it became a State agency.

- **36.7 Motor Carrier Registration Fees**

The fees collected were authorized to build and renovate weigh stations. All unexpended funds from prior years collected under this Proviso are authorized to be retained and carried forward by the Department for the same purposes.

- **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.

- **36.10 License Information**

Pursuant to Chapter 3, Title 56, Article 4 of the 1976 Code, the Department shall use revenues generated from the sale of certain information relating to motor vehicle records to fund computer needs and modernization/improvement of the Division of Motor Vehicles. This activity was transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **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 are incurred due to an emergency.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

- **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 by SLED 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 requests for copies of documents and records at the option of the requesting party. Requested documents or records are to be made available within 72 hours of receipt of the expedited request. Normal document and record processing time should not be more than 30 days. Funds derived from these sources shall be retained by the Department for use in the Division of Motor Vehicles. This activity was transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **36.20 Retention and Use of SCDOT Settlement**

The Department is authorized to receive, expend, retain, and carry forward all funds received from the South Carolina Department of Transportation from the purchase of the Department interest in the office complex located at 955 Park Street, Columbia, South Carolina. The funds are to be expended for the purchase of cars for use by the Highway Patrol.

- **36.24 DARE (Drug Awareness Resistance Education funds)**

Funds transferred to the Department from the South Carolina Department of Revenue that are related to the DARE income tax return check-off are to be used by the Criminal Justice Academy for the purpose of DARE related training. Unspent funds are to be retained and carried forward into the next fiscal year and used for the same purposes.

Also, the following sections of the South Carolina code of laws, as amended, are specific to the Department which allow it to use, retain and carryover revenues that are earmarked for specific purposes:

- **14-1-206 - General Sessions and Family Court, Magistrate Court and Municipal Court  
14-1-208 Assessments**

Sections 14-1-206, 14-1-207, and 14-1-208 of the South Carolina Code of Laws, as amended, effective January 1, 1995, provide that any person who is convicted, pleads guilty or no contest, or forfeits bond for an offense tried in general sessions and family court, magistrate court or municipal court, the fine imposed is an assessment. The Department receives the following specific portions of each of these assessments:

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

- Section 14-1-206 provides that 16.52% of the general sessions and family court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice and .5 percent is designated to the Department to defray the cost of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame. When funds collected exceed the necessary costs and expenses of operation and maintenance of the Hall of Fame, the Department may retain the surplus for use in its law enforcement training programs.
  - Section 14-1-207 provides that 22.49 percent of the magistrate court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice and .65 percent is designated to the Department to defray the cost of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame with the same restrictions as Section 14-1-206.
  - Section 14-1-208 provides that 15.07 of the municipal court assessments is designated to the Department's safety program of training in the fields of law enforcement and criminal justice; .39 percent is designated to the Department to defray costs of erecting and maintaining the South Carolina Law Enforcement Officers' Hall of Fame with the same restrictions as Section 14-1-206; and 11.36 percent is designated for the program established pursuant to 56-5-2953(E).
  - Section 56-5-2953(E) provides that once all breath test sites have been equipped fully with videotaping devices and supplies, 87.5% of the funds received in accordance with Section 14-1-208(C)(9) must be expended by the Department to purchase, maintain, and supply videotaping equipment for vehicles used for traffic enforcement. The remaining 12.5% of the funds received in accordance with this Section must be expended by the South Carolina Law Enforcement Division to purchase, maintain, and supply videotaping equipment for the breath test sites. All test sites were fully equipped in a prior fiscal year.
- **24-3-40 Disposition of Prisoner Wages**

This Section provides that 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 Department's financial statements.

- **44-53-530 Forfeitures, Including Disposition of Proceeds**

This Section of the South Carolina Code of Laws provides that 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 or agencies;

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

- b) 20% to the prosecuting agency; and,
- c) 5% must be remitted to the State Treasurer's Office and credited to the General Fund of the State.
- d) The first one thousand dollars of any cash seized and forfeited pursuant to this Section remains with and is the property of the law enforcement agency which effected the seizure unless otherwise agreed to by the law enforcement agency and prosecuting agency.

All forfeited monies and proceeds from the sale of forfeited property as defined in this Section must be retained by the governing body of the local law enforcement agency or prosecution agency and deposited in a separate, special account in the name of each appropriate agency. These accounts may be drawn on and used only by the law enforcement agency or prosecution agency for which the account was established. For law enforcement agencies, the accounts must be used for drug enforcement activities and for prosecution agencies, the accounts must be used in matters relating to the prosecution of drug offenses and litigation of drug-related matters. These accounts must not be used to supplant operating funds in the current or future budgets. Expenditures from these accounts for an item that would be a recurring expense must be approved by the governing body before purchase or, in the case of a State law enforcement agency or prosecution agency, approved as provided by law.

- **44-53-880 Drug Awareness Resistance Education (DARE) Funds**

This Section of the South Carolina 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. The purpose of the fund is to promote and encourage the Drug Awareness and Resistance Education program in the State of South Carolina. Also, see prior comments at Proviso number 36.24.

Funds credited to the DARE trust fund, excluding the administrative fees paid to the South Carolina Department of Revenue, are to be used for the following:

- Development and promotion of the DARE Program in this State; and establish a reserve fund in an interest-bearing account with five percent of the funds received by the trust fund annually to be placed in this account. No withdrawals may be made from this account until the minimum balance has reached one hundred thousand dollars and then these funds may be used only in years in which donations do not meet the average normal operating cost incurred by the trust fund and funds are needed to meet expenses. Once the balance in the reserve funds reaches one hundred thousand dollars, excess funds earned by interest and yearly allocations may be used to cover operating costs and to provide additional funds.

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

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

- **Section 56 Driver Licenses and Motor Vehicle Registrations**

Section 56 of the State Code of Laws, as amended, the Department is authorized to collect 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 authorized to be retained by the Department. Effectively July 1, 2000, twenty percent (20%) of revenues from motor vehicle fees collected pursuant to Section 56-3-910 by the Department are to be remitted to the South Carolina Department of Transportation. Sections 56-3-660 and 56-3-670 of the South Carolina Code of Laws, as amended, provide that one hundred percent (100%) of the revenues collected by the Department for truck registration fees are to be remitted to the South Carolina Transportation Infrastructure Bank. The responsibilities under this Section were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **56-3-362 Identifier Fees**

The Department shall charge a fee of \$5.00 for each identifier. The funds are to be placed in a restricted account and used by the Department for the administration and enforcement of Articles 3 and 5 of Chapter 23 of the South Carolina Code of Laws, as amended and for the building and renovation of weight stations. Unexpended funds from prior years collected under this Section may be retained, carried forward, and used for the same purposes.

- **56-3-840 Delinquent Registrations and License Penalties**

All monies collected pursuant to this Section, not to exceed the actual revenues collected in fiscal year 1999-2000, must be annually deposited to a separate account and held in reserve for the Department. Notwithstanding any other provision of law, these monies must be deposited to the credit of the Department into a special fund in the office of the State Treasurer designated as the "Department of Public Safety Building Fund". The Department must use these monies and other unobligated monies for the purpose of issuing revenue bonds or for entering into a lease purchase agreement for a headquarters facility, including the renovation of existing facilities. All monies credited to the fund that exceed the funds necessary for the purposes authorized in this section must be used for other capital projects throughout the State. The Department is authorized to initiate and direct a capital project to purchase or construct a new headquarters facility. Projects funded under this Section other than for the construction or purchase of a new headquarters facility, including the expansion or renovation of an existing facility, must be approved by a joint resolution provided that if the Department employs a lease purchase agreement to build or purchase a new headquarters facility, the lease purchase agreement must be approved by the Budget and Control Board. The cost of a headquarters facility must not exceed thirty million dollars unless a parking facility or garage is required.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

- **56-5-2942 Vehicle Immobilization Fee**

This Section requires the assessment of a fee of forty dollars for each motor vehicle owned by or registered to the person convicted of a second or subsequent violation of Section 56-5-2930, 56-5-2933, or 56-5-2945. This fee must be placed by the Comptroller General into a special restricted interest bearing account to be used by the Department to defray the expenses of the Division of Motor Vehicles. The responsibilities under this Section were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **56-5-2952 Temporary Driver License Fees**

The Department of Motor Vehicles must suspend the driver's license, permit, or nonresident operating privilege of or deny the issuance of a license or permit to a person who drives a motor vehicle and refuses to submit to a test provided for in Section 56-5-2950 or has an alcohol concentration of fifteen one-hundredths of one percent or more. The arresting officer must issue a notice of suspension which is effective beginning on the date of the alleged violation of Section 56-5-2930, 56-5-2933, or 56-5-2945. Within thirty days of the issuance of the notice of suspension, the person may obtain a temporary alcohol restricted license by filing with the Department of Motor Vehicles a form for this purpose. A one hundred-dollar fee must be assessed for obtaining a temporary alcohol restricted license. Twenty-five dollars of the fee must be retained by the Department for supplying and maintaining all necessary vehicle videotaping equipment. The remaining seventy-five dollars must be placed by the Comptroller General into a special restricted account to be used by the Department of Motor Vehicles to defray the expenses of the Division of Motor Vehicles. The responsibilities under this Section were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **56-5-4160 Size and Weight Fines**

This Section establishes regulations on imposing fines for violations regarding a vehicle's authorized weight including its load and size to operate within the State of South Carolina. Notwithstanding any other provision of law, all fines collected pursuant to this Section must be deposited into an account in the Office of the State Treasurer and called the "Size and Weight Revitalization Program Fund for Permanent Improvements." The Department shall use these monies 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 considers necessary. These fines are shown on 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, 2003

- **56-10-45 Confiscation of Registration Certificates and License Plates**

The Department and the division of motor vehicles may enter into agreements with other municipal and county law enforcement agencies for the collection of suspended or revoked drivers' licenses, motor vehicle registrations, and motor vehicle plates. The Department must assess a fifty dollar fine for each item recovered pursuant to this Section in addition to any other fines assessed. Upon collection, this fine must be returned on a quarterly basis to the general fund of the municipality or county which initiated the enforcement action. All motor vehicle registration certificates, motor vehicle plates, and drivers' licenses confiscated or seized pursuant to this Section must be returned to the Department within fifteen days. The Department shall collect and keep the reinstatement fee as provided in Section 56-10-240 and the per diem fine as provided in Section 56-10-245 upon the reinstatement of tags confiscated by local law enforcement agencies pursuant to this Section. Fines collected pursuant to Section 56-10-240 must be paid to the governing body of the local law enforcement agency confiscating the tags and deposited in the general fund of the local governing body. The responsibilities under this Section were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **56-10-245 Per Diem Fine for Lapse in Required Insurance Coverage**

If the Department determines there was a lapse in the required coverage the Department shall assess, in addition to other fines or penalties imposed by the law, a per diem fine in the amount of five dollars. The Department shall collect and keep this fine to defer the costs of the financial responsibility program. The total amount of the fine provided for in this Section may not exceed two hundred dollars for a first offense. The responsibilities under this Section were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

- **56-10-550 Collection and Distribution of Funds Pursuant to International Fuel Tax Agreement (IFTA)**

The Division of Motor Vehicles of the Department may distribute funds per International Fuel Tax Agreement to states in which a return is filed by a person covered by the agreement even if not collected. If the person has not remitted the funds within ninety days after being sent a collection notice, the Department must revoke the authority of the person to operate in South Carolina and other states. The Department may collect a person's past deficient payments by adjusting future distributions to states to which distributions had previously been made.

- **56-10-552 Uninsured Enforcement Fund / Use of Reinstatement Fee**

All funds collected as provided in Section 38-73-470 must be directed to the Department for the establishment and maintenance of a special fund, to be known as the "Uninsured Enforcement Fund" and used by the Department for the purpose of enforcement and administration of Article 3, Chapter 10, Title 56. Fifty percent of the reinstatement fee as provided by Section 56-10-510(1) must be transferred by the Department as provided in this Section and the remaining fifty percent must be retained in the Uninsured Motorist Fund to be used as provided in Sections 56-10-550, 38-77-151, and 37-77-154.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

- **56-19-420 Certificate of Title Fees**

The Department shall charge fifteen dollars for the issuance of a certificate of title; the transfer of a certificate of title; or the issuance of a duplicate certificate of title. The fees are to be allocated as follows:

- Five dollars of the fee contained in this Section must be placed in a special earmarked account by the Comptroller General and must be distributed in the following manner:
  - The first one million dollars must be allocated to the South Carolina Department of Education and used to support adult education programs.
  - The remainder must be allocated to the Department and used to support highway patrol programs.
- Notwithstanding any other provision of law, five dollars of the fee contained in this Section must be placed in a special earmarked account by the Comptroller General and must be distributed to the division of motor vehicles and used to defray its operational expenses.
- The remaining five dollars shall be remitted to the General Fund of the State. The \$1,000,000 in transfers were made to the South Carolina Department of Education during the fiscal year ended June 30, 2003 and are included in allocations to other State agencies in the financial statements.

#### 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 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:

#### Financial Responsibility and Driver Records Fund:

This 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.

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

#### Self-insurance Fund:

This 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.

#### Evidence Fund:

This fund includes confiscated funds held by the Department in an agency capacity until court adjudication.

#### Dual Employment Fund:

This fund accounts for unexpended funds received by the Department for dual employment.

#### International Fuel Tax Fund:

This 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.

All of these funds except the evidence fund and the dual employment fund were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

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

The Department-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.

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

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

#### **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.

#### **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 general fund of 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 for each 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

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.

**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 full year of depreciation is expensed in the year the asset is placed in service and no depreciation is taken in the year of disposition.

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	All, regardless of cost	
Depreciable land improvements	All, regardless of cost	30 Years
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

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

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

#### **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, 2003.

#### **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements. Expenditures for prepaid expenses are accounted for using the consumption method of accounting.

#### **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 advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no advances outstanding as of June 30, 2003.

#### **Installment Purchase Agreement Payable to State Agency; Discounts and Premiums; and, Issuance Costs**

The Department reports its installment purchase agreement payable to State agency in the governmental activities in the Department-wide financial statements. The Department defers and amortizes discounts and premiums over the term of the agreement using the outstanding balance method, which results in amortization being computed using the percentage of debt retired to the original amount of the debt instrument. Costs incurred in connection with the origination of the agreement being issued are deferred and amortized on the straight-line method over the life of the related debt instrument. The Department reports the liability net of the applicable unamortized premiums or discounts. Unamortized issuance costs are reported as other non-current assets.

#### **Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expending of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Department incurred no expenditures in arbitrage costs for the year ended June 30, 2003.

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

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

#### **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, 2003. 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.

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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

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 appropriate 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, 2003:

Original Appropriations	\$ 109,423,386
Budget Reductions	(9,391,025)
State Budget and Control Board Allocations:	
Employee health insurances cost increases	<u>381,912</u>
Revised Appropriations - Legal Basis	100,414,273
Less, portion of appropriations used for expenditures allocable to the South Carolina Department of Motor Vehicles after June 5, 2003 when it became a separate State agency	(115,539)
Change in Funding for Net Accrual Adjustments	<u>(1,965,725)</u>
State Appropriations Revenue - Accrual Basis	<u><u>\$ 98,333,009</u></u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

**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	\$33,141,883
Fiduciary funds	<u>5,414</u>
Total	<u>\$33,147,297</u>
 <u>Footnotes</u>	
Deposits held by State Treasurer	<u>\$33,247,197</u>
Total	<u>\$33,147,297</u>

**Deposits Held by State Treasurer**

The deposits of the Department held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. 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 carrying 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 include unrealized appreciation of \$501,428 for the governmental funds as of June 30, 2003 arising from changes in the fair value. The interest/investment income includes a gain of \$321,569 for the year ended June 30, 2003.

Deposits at fair value at June 30, 2003 held by the State Treasurer include \$2,480,169 of unexpended funds from the proceeds from the installment purchase agreement which are to be used for projects in progress and \$1,419,973 for advance funding for debt service.

**NOTE 4. INVENTORIES:**

The Department's inventories at June 30, 2003 totaled \$2,196,493. These inventories consisted primarily of supplies for the Highway Patrol, including uniforms, guns and accessories and vehicle accessories; office supplies for internal use; and building supplies, including janitorial use.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

**NOTE 5. CAPITAL ASSETS:**

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

	Beginning Balances as Restated June 30, 2002	Increases	Decreases	Transfer to SCDMV (B)	Ending Balances June 30, 2003
Capital assets not being depreciated:					
Land	\$ 2,013,782	\$ 1,750,000	\$ 20,016	\$ 1,993,766	\$ 1,750,000
Construction in progress	26,286,777	23,170,908	36,234,485		13,223,200
Total capital assets not being depreciated	<u>28,300,559</u>	<u>24,920,908</u>	<u>36,254,501</u>	<u>1,993,766</u>	<u>14,973,200</u>
Other capital assets being depreciated:					
Land Improvements		359,163			359,163
Buildings and improvements	43,908,393 (A)	9,184,887	3,542,624	18,673,493	30,877,163
Equipment and furniture	13,177,546	1,528,816	344,049	6,364,976	7,997,337
Vehicles	36,119,652	3,346,688	5,797,170	758,470	32,910,700
Software	707,998	24,940,435	707,998	24,940,435	
Total other capital assets	<u>93,913,589</u>	<u>39,359,989</u>	<u>10,391,841</u>	<u>50,737,374</u>	<u>72,144,363</u>
Less accumulated depreciation for					
Land Improvements		8,979			8,979
Buildings and improvements	14,392,613	1,261,478	1,812,578	6,172,000	7,669,513
Equipment and furniture	8,411,923	2,704,047	329,945	5,275,618	5,510,407
Vehicles	28,849,353	2,494,275	5,156,788	584,959	25,601,881
Software	235,999	7,620,688	235,999	7,620,688	
Total accumulated depreciation	<u>51,889,888</u>	<u>14,089,467</u>	<u>7,535,310</u>	<u>19,653,265</u>	<u>38,790,780</u>
Other capital assets, net of depreciation	<u>42,023,701</u>	<u>25,270,522</u>	<u>2,856,531</u>	<u>31,084,109</u>	<u>33,353,583</u>
Total capital assets for governmental activities, net	<u>\$ 70,324,260</u>	<u>\$ 50,191,430</u>	<u>\$ 39,111,032</u>	<u>\$ 33,077,875</u>	<u>\$ 48,326,783</u>

(A) Corrections totaling \$332,548 were made to the beginning balance of the buildings and improvements as of June 30, 2002. See Note 18 regarding the effect of corrections resulted from reporting changes to the buildings and improvements account balance as of June 30, 2002.

(B) The transfer of the capital assets to the South Carolina Department of Motor Vehicles was made as of June 5, 2003 when it became a separate State agency.

For the fiscal year ended June 30, 2003, the Department expended \$24,321,184 through its capital projects fund. \$23,170,908 was expended for projects (includes land costing \$1,750,000) that meet the Department's capitalization policy, \$218,106 was expended for capitalized equipment and furniture, and \$932,170 was expended for non-capitalized repair and renovation type costs.

Included in the expended costs to be capitalized was \$23,654,467 for the purchase, renovating and equipping of the 52.4 acres of land, two office buildings containing approximately 303,000 square feet, a warehouse containing approximately 38,800 square feet and various personal property located at 10311 Wilson Boulevard, near Blythewood, South Carolina. Land costing \$1,750,000 was capitalized and one office building and a portion of the other capitalized assets costing \$9,544,050 was put in use prior to year end and is included in the capital asset increases. The other office building and the remaining other assets were not completely renovated and equipped and were not in use as of June 30, 2003 - the \$11,092,647 of costs were included in construction in progress as of year end.

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 in the State of South Carolina. The project took approximately five years to develop and was completed and put into operation August 5, 2002.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
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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 \$15,955,000 of which approximately \$2,731,800 was unexpended at June 30, 2003. The projects in progress which will not be capitalized over the next two years have estimated total costs of approximately \$6,028,000 of which approximately \$4,970,000 was unexpended at June 30, 2003.

At June 30, 2003, the Department had commitments of approximately \$669,600 for future expenditures for projects in progress that are to be capitalized and approximately \$92,000 for projects in progress that are not to be capitalized.

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

The amount receivable represents funds that are 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, 2003. By State law, these accruals are paid from funds appropriated for the next fiscal year.

**NOTE 7. OPERATING TRANSFERS:**

Operating transfers of \$957,664 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 2004 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 \$2,130,000 for the fiscal year ended June 30, 2003.

The following is a schedule by years of future minimum rental payments as of June 30, 2003 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>
2004	\$ 155,604
2005	115,594
2006	<u>27,808</u>
Total	<u>\$ 299,006</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, 2003 were approximately \$235,000. The Department's leases for these vehicles are renewed annually.

Rental expenditures of approximately \$140,400 were incurred under contingent lease agreements for copiers.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

**NOTE 9. CHANGES IN LONG-TERM OBLIGATIONS:**

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

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Installment purchase agreement due to State agency					
Installment purchase agreement	\$	\$ 24,705,000	\$	\$ 24,705,000	\$ 1,140,000
Unamortized premium		1,374,540		1,374,540	63,428
Total installment purchase agreement		26,079,540		26,079,540	1,203,428
Notes payable to the South Carolina Department of Transportation	2,049,819		2,049,819 (1)		
Due South Carolina Department of Transportation for utilities and other costs	238,347		238,347 (1)		
Accrued compensated absences and related benefits	11,584,678	7,231,422	10,306,088 (2)	8,510,012	5,414,363
Totals	<u>\$ 13,872,844</u>	<u>\$ 33,310,962</u>	<u>\$ 12,594,254</u>	<u>\$ 34,589,552</u>	<u>\$ 6,617,791</u>

(1) The Department sold its 35% interest in the office building and parking lot to the South Carolina Department of Transportation (SCDOT) pursuant to a settlement agreement entered into by the two agencies on January 19, 2001. The Department received \$6,300,000 from the sale \$4,250,181 was paid in cash and \$2,049,819 in notes payable to SCDOT were cancelled by the Department. The Department paid SCDOT the long term payable of \$238,347 that was due for utilities and other costs. See Note 11.

(2) Included in the decrease of accrued compensated absences and related benefits was \$2,872,525 of liability transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a State agency.

**NOTE 10. INSTALLMENT PURCHASE AGREEMENT PAYABLE TO STATE AGENCY:**

The Department entered into an installment purchase agreement for \$24,705,000 with the South Carolina Budget and Control Board as of January 1, 2003 to fund the purchase of approximately 52.4 acres of land, two office buildings containing approximately 303,000 square feet, a warehouse containing approximately 38,800 square feet and various personal property located at 10311 Wilson Boulevard, near Blythewood, South Carolina. The South Carolina Budget and Control issued general obligation bonds of a like amount to provide the funds for the above acquisition and the required renovation and equipping for the Department to use as its headquarters. The terms of the installment purchase agreement are the same as those of the bond indenture. All of the proceeds and costs of the bond issue were allocated to the Department for its use.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

Details of the installment purchase agreement are as follows:

Issue date	January 14, 2003
Original face amount	\$24,705,000
Maturity date	January 1, 2018
Interest rates	3.00 % - 5.00 %
Balance unpaid, June 30, 2003	\$24,705,000

The following schedule summarizes debt service requirements, including principal and interest, by the Department to maturity:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2004	\$ 1,140,000	\$ 1,086,200	\$ 2,226,200
2005	1,190,000	1,052,000	2,242,000
2006	1,260,000	1,016,300	2,276,300
2007	1,320,000	978,500	2,298,500
2008	1,385,000	938,900	2,323,900
Five years ending June 30:			
2009 - 13	8,105,000	3,783,700	11,888,700
2014 - 18	<u>10,305,000</u>	<u>1,594,250</u>	<u>11,899,250</u>
Totals	<u>\$ 24,705,000</u>	<u>\$ 10,449,850</u>	<u>\$ 35,154,850</u>

Proceeds from the installment purchase agreement consisted of the following:

Face Amount	\$ 24,705,000
Premium	<u>1,374,540</u>
Total	<u>\$ 26,079,540</u>

Issuance costs consist of the following:

Underwriter's discount	\$ 117,349
Other costs	<u>61,580</u>
Total	<u>\$ 178,929</u>

Amortization of issuance costs for the year ended June 30, 2003 was \$5,964.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

The redemption provision for the bonds issued by the South Carolina Budget and Control Board are as follows:

All Bonds maturing on and after January 1, 2014, shall be subject to redemption, in whole or in part, at any time, in any order of maturity to be determined by the State, on and after January 1, 2013, at the redemption price expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Prices</u>
January 1, 2013, through December 31, 2014	101%
January 1, 2014, and thereafter	100%

**NOTE 11. TRANSACTIONS WITH OTHER STATE AGENCIES:**

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

The Department received the following allocations from other State agencies:

South Carolina Department of Alcohol and Other Drug Abuse Services	\$ 185,000
South Carolina Budget and Control Board- Statewide Asbestos Survey and Emergency Abatement	<u>25,000</u>
Total	<u><u>\$ 210,000</u></u>

The Department transferred \$500,000 from the Building Fund to the South Carolina State Budget and Control Board for the construction of a South Carolina Law Enforcement Officer's Memorial on the State House grounds in honor of those South Carolina law enforcement officers who have lost their lives in the line of duty pursuant to Proviso 36.21.

The Department transferred \$70,904 to the General Fund of the State pursuant to Proviso 72.97 of the 2002-2003 Appropriations Act.

The Department collected revenues from motor vehicle license fees and other sources totaling \$49,272,327 for the General Fund of the State. \$3,099,957 was remitted subsequent to year end by the Department and is included in Due to the General Fund of the State.

The Department collected \$47,642,207 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 2003. \$2,426,682 was remitted subsequent to year-end and is included in Due to Other State Agencies.

The Department collected revenues of \$6,730,551 from license fees for the South Carolina Department of Transportation in accordance with Section 56-3-910 of the South Carolina Code of Laws. \$409,728 was remitted by the Department subsequent to year end and is included in Due to Other State Agencies.

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

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

The Department collected \$92,389 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. \$3,908 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 is 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 \$87,025 was allocable to the South Carolina Department of Revenue and \$543,789 was allocable to local county governments. \$28,804 was remitted by the Department subsequent to year end and included in Due to State Agencies and accounts payable.

The Department collected revenues of \$429,351 for the South Carolina Department of Insurance in accordance with Section 56-10-550 of the South Carolina Code of laws for fiscal year 2003. \$33,351 was remitted subsequent to year end and is included in Due to Other State Agencies.

The Department collected revenues of \$163,678 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 2003. \$8,452 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, 2003, the Department collected approximately \$30,309,000. \$1,301,714 was remitted subsequent to year end and included in Due to Other State Agencies.

In accordance with Section 56-19-420 of the South Carolina Code of Laws, the Department charged a fee for the issuance of a certificate of title. The first \$1,000,000 of revenues collected was allocable to and transferred to the South Carolina Department of Education pursuant to the Section.

The Department paid the South Carolina Department of Corrections approximately \$1,427,000 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 \$48,500 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 \$747,000 for the cleaning and maintenance of the grounds and buildings, utilities, and office supplies.

The Department paid the South Carolina Educational Television Commission approximately \$131,900 for professional services, studio usage and telecommunications services.

The Department paid the South Carolina Governor's Office-State Law Enforcement Division approximately \$104,300 for data processing, drug testing, telecommunications services, data processing equipment, dues and membership fees and fines.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

The Department paid the University of South Carolina approximately \$131,300 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 \$153,300 for unemployment compensation insurance.

The Department paid the South Carolina Budget and Control Board approximately \$18,069,000 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.

The Department paid the South Carolina State University approximately \$157,200 for contractual services and the Critical Teaching Needs program.

The Department paid the South Carolina Department of Natural Resources approximately \$26,900 for the Critical Teaching Needs program.

The Department paid the South Carolina Department of Parks, Recreation and Tourism approximately \$12,900 for the Critical Teaching Needs program.

The Department paid the Department of Employment Security Commission approximately \$13,700 for the unemployment insurance premium.

The Department paid the State Accident Fund approximately \$3,588,000 for worker's compensation insurance.

The Department paid other State agencies approximately \$93,900 for various goods and services.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

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

Coastal Carolina University	\$ 987
Francis Marion University	218
University of South Carolina - Columbia Campus	828,692
Winthrop University	439
Medical University of South Carolina	365,350
Education Department	153,870
Judicial Department	338,421
Governor's Office - SLED	211,630
Governor's Office - Office of Executive Policy and Programs	19,513
Attorney General's Office	118,073
South Carolina Commission on Prosecution Coordination	454,828
Adjutant General's Office	81,519
Citadal	439
Clemson University	372,747
College of Charleston	425
Health & Environmental Control Department	144,144
Department of Mental Health	332,001
Department of Corrections	1,235,952
Department of Probation, Parole, and Pardon Service	103,422
Department of Juvenile Justice	408,658
Department of Natural Resources	59,405
Insurance Department	54,317
Department of Transportation	4,234,595
Total	<u><u>\$ 9,519,645</u></u>

The Department received approximately \$62,000 from the South Carolina Labor, Licensing and Regulation Board for security services.

The Department received approximately \$38,000 from State Budget and Control Board – Motor Vehicle Management Division for sales of goods and services.

The Department received approximately \$6,200 from State Budget and Control Board - Office of Information Resources for security and other services.

The Department received approximately \$1,387,000 from the South Carolina Department of Transportation for tags, Motor Fuel Enforcement Program (MFEP), and title/registration information.

The Department received approximately \$15,000 from the South Carolina Commission for the Blind for security services.

The Department received approximately \$89,000 from the South Carolina Department of Education for sales of goods and services.

The Department received approximately \$95,700 from the State Law Enforcement Division for reimbursement of Phoenix Project and for reimbursement for salaries and fringes payments.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

The Department received approximately \$51,200 from the South Carolina Department of Natural Resources for sales of goods and services.

The Department received approximately \$240,100 from the South Carolina Education Lottery Commission for security services.

Due to other State Agencies in the Federal Fund includes \$2,254,111 for amounts due for expenditures made under Federal grants prior to June 30, 2003.

\$34,533 was due from various State agencies for sales of goods and services as of June 30, 2003.

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 12. CONTINGENCIES/SUBSEQUENT EVENTS:**

The various federal programs administered by the Department for the fiscal year 2003 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence that a liability should be recorded as of year end.

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.

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 may have exposure of several million dollars.

**NOTE 13. 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

**NOTE 14. 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 \$56,000 for lump-sum annual vacation leave payments to its employees retiring under the TERI Program in fiscal year 2003.

**NOTE 15. 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.

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, 2003.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$9,481,500 for the year ended June 30, 2003. As discussed in Note 16, the Department paid approximately \$2,875,000 applicable to the 3.15 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

**NOTE 16. 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.

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, 2002, the employer contribution rate became 10.70 percent which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2003, 2002 and 2001 were approximately \$3,332,000, \$3,139,000, and \$3,414,000 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 \$66,200 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

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, 2002, the employer contribution rate became 13.45 percent which, as for the SCRS, included the 3.15 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2003, 2002, and 2001 were approximately \$4,855,000, \$4,665,000 and \$4,887,000 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 \$94,300 and accidental death insurance contributions of approximately \$94,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

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 17. 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

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.

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 2003 and 2002, 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, 2003	<u>\$ 11,213</u>	<u>\$ 136,211</u>	<u>\$ 92,688</u>	<u>\$ 55,000</u>
June 30, 2002	<u>\$ 15,447</u>	<u>\$ 294,431</u>	<u>\$ 298,665</u>	<u>\$ 11,213</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

Employee fidelity and faithful performance bonds are purchased from commercial insurance providers. Every law enforcement officer and trooper is 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 \$600,000 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.

**NOTE 18. ACCOUNTING CHANGES/PRIOR ADJUSTMENTS:**

The Department made corrections of errors in the application of accounting principles regarding recorded accounts receivable for sales of goods and services and the capitalized amount of buildings and improvements owned as of June 30, 2002.

The effect of the accounting and reporting changes on beginning balances in the accompanying financial statements is as follows:

	Department Wide/ Net Assets	-----Governmental Funds----- General Fund	----- Total
Balances, June 30, 2002, as previously reported	\$ 85,482,023	\$ 24,183,985	\$ 29,363,155
Correction of error:			
Decrease accounts receivable from sales of goods and services recorded in error	(1,049,862)	(1,049,862)	(1,049,862)
Increase capitalized costs of buildings and improvements to correct amount as of July 1, 2002	332,548		
Balances, June 30, 2002, as restated	\$ 84,764,709	\$ 23,134,123	\$ 28,313,293

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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

The effects of the accounting and reporting changes on the various account balances as of July 1, 2002 in the Department-wide financial statements are as follows:

<u>Category</u>	<u>Balances, as previously reported</u>	<u>Prior period adjustments</u>	<u>Balances, as restated</u>
Receivables:			
State agencies	<u>\$ 1,221,587</u>	<u>\$ (1,049,862)</u>	<u>\$ 171,725</u>
Capital assets being depreciated:			
Buildings and improvements	<u>\$ 43,575,845</u>	<u>\$ 332,548</u>	<u>\$ 43,908,393</u>
Net assets	<u>\$ 85,482,023</u>	<u>\$ (717,314)</u>	<u>\$ 84,764,709</u>

The effects of the accounting and reporting changes on the various account balances as of July 1, 2002 in the governmental funds financial statements are as follows:

<u>Category</u>	<u>Balances, as previously reported</u>	<u>Prior period adjustments</u>	<u>Balances, as restated</u>
Receivables:			
State agencies	<u>\$1,221,587</u>	<u>\$ (1,049,862)</u>	<u>\$171,725</u>
Fund balances:			
General Fund	<u>\$ 24,183,985</u>	<u>\$ (1,049,862)</u>	<u>\$ 23,134,123</u>
Total	<u>\$ 29,363,155</u>	<u>\$ (1,049,862)</u>	<u>\$ 28,313,293</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**COMBINING STATEMENT OF CHANGED IN ASSETS AND LIABILITIES-  
ALL AGENCY FUNDS  
YEAR ENDED JUNE 30, 2003**

	Balances, July 1, 2002	Additions	Deductions	Transfer to SCDMV (1)	Balances, June 30, 2003
<b>FINANCIAL RESPONSIBILITY AND DRIVER RECORDS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 1,027,501	\$ 13,864	\$	\$ 1,041,365	\$ -0-
Accounts receivable		2,559		2,559	-0-
Total assets	<u>\$ 1,027,501</u>	<u>\$ 16,423</u>	<u>\$</u>	<u>\$ 1,043,924</u>	<u>\$ -0-</u>
<b>LIABILITIES:</b>					
Amounts held for others	<u>\$ 1,027,501</u>	<u>\$ 16,423</u>	<u>\$</u>	<u>\$ 1,043,924</u>	<u>\$ -0-</u>
<b>SELF-INSURANCE</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 150,000	\$	\$	\$ 150,000	\$ -0-
Other assets	15,000			15,000	\$ -0-
Total assets	<u>\$ 165,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 165,000</u>	<u>\$ -0-</u>
<b>LIABILITIES:</b>					
Amounts held for others	<u>\$ 165,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 165,000</u>	<u>\$ -0-</u>
<b>EVIDENCE</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 500	\$	\$	\$	\$ 500
<b>LIABILITIES:</b>					
Amounts held for others	<u>\$ 500</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 500</u>
<b>INTERNATIONAL FUEL TAX</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 416,940	\$ 1,136,788	\$ 960,234	\$ 593,494	\$ -0-
Accounts receivable	320,120	435,070	755,190		-0-
Total assets	<u>\$ 737,060</u>	<u>\$ 1,571,858</u>	<u>\$ 1,715,424</u>	<u>\$ 593,494</u>	<u>\$ -0-</u>
<b>LIABILITIES:</b>					
Accounts payable	\$ 710,234	\$ 631,598	\$ 960,234	\$ 381,598	\$ -0-
Amounts held for others	26,826	435,070	250,000	211,896	-0-
Total liabilities	<u>\$ 737,060</u>	<u>\$ 1,066,668</u>	<u>\$ 1,210,234</u>	<u>\$ 593,494</u>	<u>\$ -0-</u>
<b>DUAL EMPLOYMENT</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 4,900	\$ 4,867	\$ 4,853	\$	\$ 4,914
<b>LIABILITIES:</b>					
Amounts held for others	<u>\$ 4,900</u>	<u>\$ 4,867</u>	<u>\$ 4,853</u>	<u>\$</u>	<u>\$ 4,914</u>
<b>TOTAL - ALL AGENCY FUNDS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 1,599,841	\$ 1,155,519	\$ 965,087	\$ 1,784,859	\$ 5,414
Accounts receivable	320,120	437,629	755,190	2,559	-0-
Other assets	15,000			15,000	-0-
Total assets	<u>\$ 1,934,961</u>	<u>\$ 1,593,148</u>	<u>\$ 1,720,277</u>	<u>\$ 1,802,418</u>	<u>\$ 5,414</u>
<b>LIABILITIES:</b>					
Accounts payable	\$ 710,234	\$ 631,598	\$ 960,234	\$ 381,598	\$ -0-
Amounts held for others	1,224,727	456,360	254,853	1,420,820	5,414
Total liabilities	<u>\$ 1,934,961</u>	<u>\$ 1,087,958</u>	<u>\$ 1,215,087</u>	<u>\$ 1,802,418</u>	<u>\$ 5,414</u>

(1) These activities were transferred to the South Carolina Department of Motor Vehicles on June 5, 2003 when it became a separate State agency.

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

<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>			
<b>DIRECT PROGRAMS</b>			
Juvenile Accountability Incentive Block Grants	16.523	\$ 3,460,113	\$ 3,139,130
Juvenile Justice and Delinquency Prevention			
- Allocation to States	16.540	872,787	707,266
Title V - Delinquency Prevention Program	16.548	374,339	374,339
Part E - State Challenge Activities	16.549	100,576	100,576
State Justice Statistics Program for Statistical			
Analysis Centers	16.550	41,388	
Crime Victim Assistance	16.575	5,164,229	4,930,836
Byrne Formula Grant Program	16.579	6,619,866	5,576,398
Violence Against Women Formula Grants	16.588	1,603,173	1,378,726
Local Law Enforcement Block Grants Program	16.592	327,426	309,856
Residential Substance Abuse Treatment for			
State Prisoners	16.593	1,075,673	1,067,759
Bulletproof Vest Partnership Program	16.607	36,062	8,739
Community Prosecution and Project Safe			
Neighborhoods	16.609	53,591	
Public Safety Partnership and Community			
Policing Grants	16.710	497,384	
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>20,226,607</u>	<u>17,593,625</u>
<b>U.S. Department of Transportation</b>			
<b>DIRECT PROGRAMS</b>			
Motor Carrier Safety	20.217	32,380	
National Motor Carrier Safety	20.218	3,759,319	
State and Community Highway Safety	20.600	8,321,171	5,683,442
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive Grants	20.601	136,518	81,049
Federal Highway Safety Data Improvements			
Incentive Grants	20.603	329,426	
Safety Incentive Grants for Use of Seatbelts	20.604	957,205	42,003
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>13,536,019</u>	<u>5,806,494</u>
<b>U.S. Department of Energy</b>			
<b>DIRECT PROGRAMS</b>			
State and Tribal Concerns, Proposed Solutions	81.106	56,820	
<b>U.S. Department of Homeland Security</b>			
<b>DIRECT PROGRAMS</b>			
State and Local Domestic Preparedness			
Technical Assistance	97.007	131,161	
<b>TOTAL FEDERAL ASSISTANCE</b>		<u>\$ 33,950,607</u>	<u>\$ 23,400,119</u>

**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.



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, 2003, and have issued our report thereon dated March 31, 2004. 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 matters 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 conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

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

We also noted other matters involving the internal control over financial reporting which are described as Other Management Letter Comments and are identified as items 03-4 and 03-5.



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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.

*Rogert y Laban P.A.*

March 31, 2004



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, 2003. 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.

As described in item 03-3 in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with the requirements regarding reporting that is applicable to the Public Safety Partnership and Community Policing Grants. Compliance with such requirements are necessary, in our opinion, for the Department to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2003.

### Internal Control Over Compliance

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

The management of the University 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 University's internal control over compliance with requirements that

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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.

We noted a matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as items 03-3.

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 or grants that would be material 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. Our consideration of the internal control over compliance 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. We believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs is a material weakness.

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.

*Rogers + Laban, P.A.*

March 31, 2004

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**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?  yes  no
- Reportable condition identified  
not considered to be material weaknesses?  yes  no
3. Non-compliance material to the Financial  
Statements noted?  yes  no

**Federal Awards**

4. Internal control over major programs:
- Material weakness identified?  yes  no
- Reportable condition identified  
not considered to be material weaknesses  yes  no
5. Type of auditor's report issued on compliance for  
major programs: Qualified Opinion
6. Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
Section .510(a)?  yes  no
7. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.523	Juvenile Accountability Incentive Block Grant
16.548	Title V - Delinquency Prevention Program
16.588	Violence Against Woman Formula Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
16.710	Public Safety Partnership & Community Policing Grants
20.218	National Motor Carrier Safety
20.600	State & Community Safety

8. Dollar threshold used to be distinguished between Type A  
and Type B Programs: \$1,018,518
9. Auditee qualified as low-risk auditee?  yes  no

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**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.

**03-1 GRANT RECEIVABLE / DEFERRED REVENUE**

**Condition:** Our tests of the grant/contribution revenue closing package disclosed that grant receivable were understated \$177,087 and deferred revenue was overstated \$707,862.

**Cause:** Errors were made in determining that amount of the grant receivable at year end for two grants and the amount of grant deferred revenue at year end for two grants.

**Effect:** The failure to correctly report accounts receivable results in an understatement of assets and revenue and an overstatement of deferred revenue results in a overstatement of liabilities and an understatement of revenue.

**Criteria:** Good accounting practices require the correct recording of grant accounts receivable and deferred revenue as of year end.

**Recommendations:** We recommend that the Department's personnel accurately determine grant accounts receivable and deferred revenue balances as of year end and in connection with the preparation of the year end closing package.

**03-2 ACCOUNTS PAYABLE DEFICIENCIES**

**Condition:** Our tests for unrecorded payables disclosed these amounts totaling \$251,831 were omitted from the year-end closing package.

**Cause:** The Department's staff did not identify and accurately record accounts payable as of year end.

**Effect:** The failure to properly record all accounts payable as of year end results in an understatement of liabilities and expenses/expenditures in the Department's financial statements.

**Criteria:** Good accounting practices require the correct recording all accounts payable as of each year end.

**Recommendations:** We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable are recorded.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**03-3 PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS - CFDA # 16.710**

**Condition:** The Department overstated the amount of amount of the recipient's share of outlays and total outlays by approximately \$225,000 on the financial status report (Standard Form 269A) that it submitted for the quarter ended June 30, 2003. The Department met the required matching requirement based on the actual amount of State outlays.

**Cause:** Department personnel included amounts from a report that did not reflect the actual expenditures for the quarter.

**Effect:** The State's share of expenditures and the total expenditures were overstated.

**Criteria:** Generally accepted accounting principles and OMB Circular A-133 require the preparation of accurate financial information.

**Recommendations:** We recommend that the Department implement procedures to ensure that all reports are accurately prepared. The procedures should include an independent verification of the amounts before the reports are finalized.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**OTHER MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

Other management letter comments include the following:

**03-4 PROCUREMENT CARD DOCUMENTATION**

**Condition:** Our tests of disbursements by use of the procurement card disclosed that adequate documentation is not being obtained to determine that these type expenditures as bona fide expenditures of the Department and all made by authorized cardholders.

**Cause:** Procedures for the use of the procurement card are not being adhered to.

**Effect:** Unauthorized expenditures could be charged to the Department's operating budget.

**Criteria:** Good accounting practices and procedures require the Department to review and approve all procurement card expenditures to ensure they are bona fide expenditures of the Department and are only being made by authorized personnel.

**Recommendations:** We recommend that the review and approval process be followed to ensure adequate documentation is on file to support procurement card expenditures and those expenditures are made only by authorized personnel.

**03-5 RECEIPT DOCUMENTATION NOT LOCATED**

**Condition:** Documentation could not be located to support two receipts included in our sample for testing.

**Cause:** The Department could not offer a reason for this deficiency.

**Effect:** There was no documentation available to verify the correct posting of the sources and purpose of the receipts.

**Criteria:** Good accounting practices require the Department to maintain complete and accurate documentation that supports transactions recorded in its financial records.

**Recommendations:** We recommend that all supporting documentation be filed in the proper place so it can be retrieved when needed.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**STATUS OF PRIOR MANAGEMENT LETTER COMMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

During our current audit, we reviewed the status of corrective action taken on the findings and questioned costs and other management letter comments reported in our report on the financial statements of the Department dated April 25, 2003, resulting from the audit of the financial statements for the year ended June 30, 2002. We found that adequate corrective action has been taken for the following:

Findings related to financial statements:

02-1 Accounting for capital assets

Other management letter comments:

02-2 Differences in inventory

02-3 Insurance coverage

02-4 Errors in operating lease closing package

02-5 System of receiving funds inadequate

# **CORRECTIVE ACTION PLAN**

## **APPENDIX A**

Corrective Action Plan  
Appendix A

Findings related to the Financial Statements

We agree with the need to accurately determine year-end receivable balances and deferred revenue amounts. We have reviewed the discrepancy issues with Larry Hill, our Revenue Accounting Manager, and showed him how to properly account for revenues for the 2004 Closing Package. Stephen Fulmer and Paul Lewis will also review the coming year Closing Package more closely, looking at the proper calculation of revenues.

- 03-2 We agree with the need to accurately handle year-end cutoff procedures to ensure correct accounts payable balances at year-end. We have reviewed the omission of payable invoices with Pam Jennings, our Accounts Payable Manager, and she has reviewed the procedures with all of her staff. Pam Jennings and Paul Lewis will also more closely review the final closing package looking to see that the same omission does not occur in 2004.

Findings and questioned costs for Federal Awards

We concur with the need to accurately report on all Federal Financial Reports. We reviewed all the 269 Reports in question with Lt. McLeod and Pam Norris of Highway Patrol. They were trained on how to correctly prepare the amended form and how to prepare all future reports. New procedures were put in place having either Stephen Fulmer or Paul Lewis to review the finalized report before issuing any future reports.

Name of Contact Person: Paul Lewis, Manager of Financial Information  
Date: June 30, 2004

**MANAGEMENT'S RESPONSE TO THE  
OTHER MANAGEMENT LETTER COMMENTS**

**APPENDIX B**

Management's response to the Other Management Letter Comments  
Appendix B

- 03-4 We agreed with the need for adequate documentation backup for procurement card expenditures and for allowing only authorized personnel to use procurement cards. We have reviewed these issues with Rene Johnson, our Procurement Liaison Coordinator. She has reviewed the problems with the designated cardholders.
- 03-5 We agreed with the need to maintain adequate documentation as proper support for all transactions. We have reviewed with Larry Hill, our Revenue Accounting Manager, the transactions missing documentation and have asked him to attempt to correct this problem in the future.

Name of Contact Person: Paul Lewis, Manager of Financial Information  
Date: June 30, 2004