



Office of the State Auditor

Independent Auditors' Report

The Honorable Mark Sanford, Governor
and
Members of the General Assembly
State of South Carolina
Columbia, South Carolina

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina (the State), as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain component units and agencies of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP acting separately, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely on the reports of the other auditors.

	Percentage not jointly audited		Percentage audited by KPMG separately		Percentage audited by other auditors	
	Total Assets	Total Revenue	Total Assets	Total Revenue	Total Assets	Total Revenue
<u>Government-wide</u>						
Governmental activities	76	21	1	1	75	20
Business-type activities	99	98	39	53	60	45
Component units	100	100	5	2	95	98
<u>Fund statements</u>						
Local Government Infrastructure	100	100			100	100
Department of Transportation						
Special Revenue Fund	100	100			100	100
Higher Education	100	100	61	61	39	39
Unemployment Compensation	97	91			97	91
Housing Authority	100	100			100	100
Education Assistance Authority	100	100			100	100
Other remaining fund information	95	87	10	46	85	41

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *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

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misstatement. The financial statements of the discretely presented component units identified in Note 1(a) were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

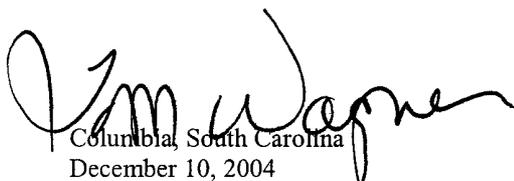
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the State implemented Governmental Accounting Standards Board's (GASB) Technical Bulletin No. 2004-1 *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, effective July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, supplementary information to the financial statements and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information to the financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Columbia, South Carolina
December 10, 2004

KPMG LLP

Greenville, South Carolina
December 10, 2004