LANDER UNIVERSITY

GREENWOOD, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT AUDITOR'S REPORT

October 9, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the accompanying basic financial statements of Lander University as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Lander Foundation and the Lander University Alumni Association, component units of the University, which are discretely presented as part of the primary entity in the accompanying basic financial statements. The financial statements of the Lander Foundation were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. The financial statements of the Lander University Alumni Association have not been audited but were furnished to us by that organization. The financial statements of that organization reflect 1.7% of assets, 4.2% support, and 4.2% of expenses of the component units as of and for the year ended June 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards. 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 and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of Lander University are intended to present the financial position, changes in fund balances, current funds revenues, expenditures, and other changes, and the activities and cash flows of its component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Lander University, an institution of the State of South Carolina. These financial statements include the Lander Foundation and the Lander University Alumni Association, component units of the University. These basic financial statements do not include other agencies, institutions, departments, or funds or any component units of the State of South Carolina primary government.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes and the statements of activities and cash flows of its component units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20, certain errors in the application of accounting principles were discovered by management of the University during the current year. The changes have been accounted for as corrections of errors and the fund balances have been restated as of July 1, 1997.

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. The University's investments are stated at fair value at June 30, 1998. As discussed in Note 20, the University has not restated its beginning fund balances as of July 1, 1997, for changes resulting from adoption of Statement No. 31.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1998

ASSETS		LIABILITIES, NET ASSETS, AND FUND BALANCES	
CURRENT FUNDS		**CURRENT FUNDS**	
Unrestricted:		Unrestricted:	
Cash and Cash Equivalents (Note 17)	$ 770,670	Accounts Payable	$ 184,975
State Appropriations Receivable (Note 3)	365,431	Interest Payable	4,009
Accounts Receivable, Net (Note 15)	186,451	Accrued Payroll and Related Liabilities	397,248
Due from Component Unit (Note 21)	109,514	Due to State General Fund	4,799
Interest Receivable	2,108	Deferred Revenues	193,647
Inventories (Note 13)	152,684	Student Deposits	313,491
Prepaid Items	106,421	Accrued Compensated Absences and Related Liabilities (Note 2)	1,039,225
Due from Other Funds: (Note 14)		Due to Other Funds (Note 14):	
Restricted Current Funds	106,071	Loan Funds	46,139
Retirement of Indebtedness Plant Funds	53,699	Unexpended Plant Funds	56,642
Agency Funds	37,611	Fund Balance (Deficit) (Note 2)	(349,515)
Total Unrestricted	1,890,660	**Total Unrestricted**	1,890,660
Restricted:		Restricted:	
Grants and Contracts Receivable	220,761	Accrued Payroll and Related Liabilities	18,714
Due from Component Unit (Note 21)	100	Due to Unrestricted Current Funds (Note 14)	106,071
		Fund Balances:	
		Grants and Contracts	96,076
Total Restricted	220,861	**Total Restricted**	220,861
Total Current Funds	$2,111,521	**Total Current Funds**	$2,111,521
LOAN FUNDS		**LOAN FUNDS**	
Cash and Cash Equivalents (Note 17)	$ 49,776	Fund Balances:	
Loans to Students (Note 15)	1,193,601	U.S. Government Grants Refundable	$1,289,737
Interest Receivable	221		
Due from Unrestricted Current Funds (Note 14)	46,139		
Total Loan Funds	$1,289,737	**Total Loan Funds**	$1,289,737

EXHIBIT A
(CONTINUED)

LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1998

ASSETS

PLANT FUNDS	
Unexpended:	
Cash and Cash Equivalents (Note 17)	$ 305,144
Accounts Receivable	529
Due from Unrestricted Current Funds (Note 14)	56,642
Capital Improvement Bond Proceeds Receivable (Note 4)	1,420,077
Interest Receivable	2,642
Total Unexpended	1,785,034
Retirement of Indebtedness:	
Cash and Cash Equivalents (Note 17)	665,731
Interest Receivable	11,348
Total Retirement of Indebtedness	677,079
Investment in Plant:	
Land and Land Improvements	2,535,821
Leasehold Improvements (Note 7)	49,316
Buildings	50,115,890
Equipment	1,445,692
Equipment Under Capital Lease (Note 7)	255,713
Equipment Under Installment (Note 8)	741,571
Library Collection	3,026,488
Total Investment in Plant	58,170,491
Total Plant Funds	$60,632,604
AGENCY FUNDS	
Due from Others	$ 59,912
Total Agency Funds	$ 59,912

LIABILITIES, NET ASSETS, AND FUND BALANCES

PLANT FUNDS	
Unexpended:	
Accrued Payroll and Related Liabilities	$ 6,579
Retainages Payable (Note 16)	66,719
Fund Balances:	
Unrestricted, Designated	428,712
Restricted	1,283,024
Total Unexpended	1,785,034
Retirement of Indebtedness:	
Accrued Interest Payable	100,890
Due to Unrestricted Current Funds (Note 14)	53,699
Fund Balances:	
Restricted	522,490
Total Retirement of Indebtedness	677,079
Investment in Plant:	
Capital Lease Obligations (Note 7)	108,119
Notes Payable (Note 6)	2,745,089
Bonds Payable (Note 5)	635,000
Installment Note Payable (Note 8)	599,967
Net Investment in Plant	54,082,316
Total Investment in Plant	58,170,491
Total Plant Funds	$60,632,604
AGENCY FUNDS	
Deposits Held for Others	$ 22,301
Due to Unrestricted Current Funds (Note 14)	37,611
Total Agency Funds	$ 59,912

LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1998

ASSETS

COMPONENT UNITS	
Cash and Cash Equivalents (Note 17)	$ 292,193
Student Loans Receivable	13,827
Investments (Note 17)	9,439,374
Investments in Real Estate	170,170
Unconditional Promises to Give	19,275
Due from Component Unit	162,424
Fixed Assets (Net of Accumulated Depreciation of $6,223)	190
Total Component Units	$10,097,453

LIABILITIES, NET ASSETS, AND FUND BALANCES

COMPONENT UNITS	
Due to Component Unit	$ 162,424
Net Assets of Foundation:	
Unrestricted	3,251,445
Temporarily Restricted	335,110
Permanently Restricted	6,180,599
Fund Balance, Unrestricted of Alumni Association	167,875
Total Component Units	$10,097,453

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	CURRENT FUNDS			PLANT FUNDS			TOTAL- (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Revenues and Other Additions:							
Unrestricted Current Fund Revenues	$24,193,117	$ -	$ -	$ -	$ -	$ -	$24,193,117
Federal Grants and Contracts-Restricted	-	1,995,308	-	-	-	-	1,995,308
U.S. Government Advances	-	-	35,864	-	-	-	35,864
State Appropriations-Restricted (Note 3)	-	527,914	-	-	-	-	527,914
State Grants and Contracts-Restricted	-	75,695	-	-	-	-	75,695
Private Gifts, Grants and Contracts-Restricted	-	584,906	-	11,120	-	36,907	632,933
Interest Income-Restricted	-	-	1,708	18,177	102,564	-	122,449
Reimbursement of Previously Canceled Loans	-	-	18,980	-	-	-	18,980
Interest on Student Loans Receivable	-	-	30,547	-	-	-	30,547
Student Fees	-	-	-	46,053	-	-	46,053
Expended for Plant Facilities (Including $619,051 Charged to Current Funds Expenditures)	-	-	-	-	-	2,880,355	2,880,355
Retirement of Indebtedness	-	-	-	-	-	269,015	269,015
Total Revenues and Other Additions	24,193,117	3,183,823	87,099	75,350	102,564	3,186,277	30,828,230
Expenditures and Other Deductions:							
Educational and General Expenditures	20,769,563	3,085,427	-	-	-	-	23,854,990
Auxiliary Enterprises Expenditures	4,316,076	4,237	-	-	-	-	4,320,313
Indirect Cost Remitted to State General Fund	4,167	-	-	-	-	-	4,167
Indirect Costs Recovered	-	17,066	-	-	-	-	17,066
Loan Cancellations and Write-Offs	-	-	31,971	-	-	-	31,971
Administrative and Collection Costs	-	-	10,449	-	2,086	-	12,535
Expended for Plant Facilities (Including Noncapitalized Expenditures of $177,201)	-	-	-	2,438,505	-	-	2,438,505
Retirement of Indebtedness	-	-	-	-	162,178	-	162,178
Interest and Executory Fees on Indebtedness	-	-	-	-	202,507	-	202,507
Disposal of Plant Facilities	-	-	-	-	-	454,922	454,922
Refunded to Grantor	-	34,749	1,142	-	-	-	35,891
Total Expenditures and Other Deductions	25,089,806	3,141,479	43,562	2,438,505	366,771	454,922	31,535,045

LANDER UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	CURRENT FUNDS			PLANT FUNDS			TOTAL- (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Transfers Among Funds - Additions/(Deductions):							
Mandatory:							
Principal and Interest (Notes 5 and 6)	(2,138,807)	-	-	-	2,138,807	-	-
Renewals and Replacements (Note 6)	-	-	-	30,000	(30,000)	-	-
Loan Fund Matching Grant	(11,954)	-	11,954	-	-	-	-
Nonmandatory (Note 9):							
Transfers from Retirement of Indebtedness Funds For Auxiliary Enterprise Operations	1,886,737	-	-	-	(1,886,737)	-	-
Transfers from Current Funds for Allocation of Student Fees	(106,850)	-	-	106,850	-	-	-
Transfer of Debt Representing Plant Additions (Note 8)	348,835	-	-	-	-	(348,835)	-
Total Transfers	(22,039)	-	11,954	136,850	222,070	(348,835)	-
Net Increases (Decreases) for the Year	(918,728)	42,344	55,491	(2,226,305)	(42,137)	2,382,520	(706,815)
Fund Balances, Beginning of Year, as Restated (Note 20)	569,213	53,732	1,234,246	3,938,041	564,627	51,699,796	58,059,655
Fund Balances, End of Year	$ (349,515)	$96,076	$1,289,737	$ 1,711,736	$ 522,490	$54,082,316	$57,352,840

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY

Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1998

	UNRESTRICTED	RESTRICTED	TOTAL
Revenues:			
Student Tuition and Fees	$ 9,324,426	$ -	$ 9,324,426
State Appropriations (Note 3)	9,507,321	527,804	10,035,125
Federal Grants and Contracts	26,843	1,980,334	2,007,177
State Grants and Contracts	-	84,688	84,688
Private Gifts, Grants and Contracts (Note 21)	423,803	496,838	920,641
Interest Income	3,167	-	3,167
Sales and Services of Auxiliary Enterprises	4,616,088	-	4,616,088
Other Sources	291,469	-	291,469
Total Current Revenues	24,193,117	3,089,664	27,282,781
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	9,467,491	202,598	9,670,089
Public Service	64,248	287,087	351,335
Academic Support	1,673,027	28,224	1,701,251
Student Services	2,527,048	18,213	2,545,261
Institutional Support	3,197,219	13,353	3,210,572
Operation and Maintenance of Plant	2,850,480	13,178	2,863,658
Scholarships and Fellowships	990,050	2,522,774	3,512,824
Total Educational and General Expenditures	20,769,563	3,085,427	23,854,990
Mandatory Transfers for Loan Fund Matching Grants	11,954	-	11,954
Total Educational and General	20,781,517	3,085,427	23,866,944
Auxiliary Enterprises:			
Expenditures	4,316,076	4,237	4,320,313
Mandatory Transfers for:			
Principal and Interest	2,138,807	-	2,138,807
Total Auxiliary Enterprises	6,454,883	4,237	6,459,120
Total Expenditures and Mandatory Transfers	27,236,400	3,089,664	30,326,064

LANDER UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1998

	UNRESTRICTED	RESTRICTED	TOTAL
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	1,886,737	-	1,886,737
Nonmandatory Transfers Out	(106,850)	-	(106,850)
Transfer of Debt Representing Plant Additions	348,835	-	348,835
Excess of Restricted Receipts Over Transfers to Revenues	-	77,093	77,093
Indirect Cost Recoveries Remitted to the State General Fund	(4,167)	-	(4,167)
Refunded to Grantor	-	(34,749)	(34,749)
Total Other Transfers and Additions	2,124,555	42,344	2,166,899
Net Increases (Decreases) in Fund Balances	$ (918,728)	$ 42,344	$ (876,384)

The accompanying notes are an integral part of this financial statement.

EXHIBIT D

LANDER UNIVERSITY
Component Units Statements of Activities
For the Year Ended June 30, 1998

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
CHANGES IN UNRESTRICTED NET ASSETS AND FUND BALANCES			
Support			
Contributions	$ 110,143	$ -	$ 110,143
Lander Foundation	-	43,400	43,400
Investment Income	497,075	23,607	520,682
Lease Income	73,110	-	73,110
Net Assets - Released from Restrictions or Satisfaction of Restrictions	850,487	-	850,487
Other Income	-	850	850
Total Support	1,530,815	67,857	1,598,672
Program Expenses			
Scholarships	386,775	-	386,775
Grants and Other Approved Programs	785,883	-	785,883
Contributions to:			
Lander Foundation	-	28,930	28,930
Lander University	-	15,960	15,960
Supporting Services Expenses			
Management and General:			
Board-Approved Expenses	31,116	12,505	43,621
Insurance	16,937	139	17,076
Property Expenses	8,547	144	8,691
Professional Fees	2,700	200	2,900
Interest Expense	63,048	-	63,048
Loss on Disposal of Assets	35,235	-	35,235
Total Expenses	1,330,241	57,878	1,388,119
Increase in Unrestricted Net Assets and Fund Balances	200,574	9,979	210,553
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Support			
Contributions	497,681	-	497,681
Interest Income	210,220	-	210,220
Net Assets - Released from Restrictions or Satisfaction of Restrictions	(850,487)	-	(850,487)
Increase (Decrease) in Temporarily Restricted Net Assets	(142,586)	-	(142,586)

EXHIBIT D
(CONTINUED)

LANDER UNIVERSITY
Component Units Statements of Activities
For the Year Ended June 30, 1998

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Support			
Contributions	981,496	-	981,496
Investment Income	666,423	-	666,423
Increase in Permanently Restricted Net Assets	1,647,919	-	1,647,919
Increase in Net Assets/Fund Balances	1,705,907	9,979	1,715,886
Net Assets/Fund Balances - Beginning of Year	8,061,247	157,896	8,219,143
Net Assets/Fund Balances - End of Year	$9,767,154	$167,875	$9,935,029

The accompanying notes are an integral part of this financial statement.

EXHIBIT E

LANDER UNIVERSITY

Component Units Statements of Cash Flows
For the Year Ended June 30, 1998

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase (Decrease) in Net Assets/Fund Balances	$ 1,705,907	$ 9,979	$ 1,715,886
Adjustments to Reconcile Change in Net Assets/Fund Balances to Net Cash Provided by Operating Activities:			
Depreciation Expense	-	144	144
(Increase) Decrease in Operating Assets:			
Due from/to Component Unit	13,802	(13,802)	-
Student Loans Receivable	5,655	-	5,655
Unconditional Promises to Give	(1,275)	-	(1,275)
Net Cash Provided by (Used for) Operating Activities	1,724,089	(3,679)	1,720,410
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Investments	(2,179,030)	-	(2,179,030)
Proceeds from Sale of Assets	1,700,500	-	1,700,500
Loss on Disposal of Investments in Real Estate	35,235	-	35,235
Net Cash Used for Investing Activities	(443,295)	-	(443,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of Long-Term Debt	(1,078,800)	-	(1,078,800)
Net Cash Used for Financing	(1,078,800)	-	(1,078,800
Net Increases/(Decreases) in Cash and Cash Equivalents	201,994	(3,679)	198,315
Beginning Cash and Cash Equivalents	84,938	8,940	93,878
Ending Cash and Cash Equivalents	$ 286,932	$ 5,261	$ 292,193
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash Paid During the Year for Interest	$ 63,048	$ -	$ 63,048

The accompanying notes are an integral part of this financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lander University conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Industry Audit Guide Audits of Colleges and Universities* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard - setting body for GAAP for all state governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

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

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an 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 dependent on the primary government unless the organization holds all of the following powers:

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

The organization is fiscally independent if it holds all three of those powers. The University has determined this financial reporting entity includes the University (a primary entity) and all of its component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-30 of the Code of Laws of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees, whose members are appointed by the Governor with the advice and consent of the Senate, is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, current funds revenues, expenditures, and other changes and the activities and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

Component Units Blended in Primary Entity In Discrete Column Presentation

(1) Lander Foundation (the Foundation) is a nonprofit eleemosynary corporation whose purpose is to receive, hold, manage, invest or arrange for investing; to acquire by gift, devise, bequest, purchase or otherwise; and to use property of any kind and funds in furtherance of Lander University. Several key employees of the University are also members and officers of the Foundation’s Board of Trustees. The component unit is included as part of the primary entity because the University believes its exclusion would render the financial statements incomplete or misleading. The separately issued audited financial statements of the Foundation may be obtained from the University.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units Blended in Primary Entity In Discrete Column Presentation (Continued)

(2) Lander University Alumni Association (the Alumni Association) is a nonprofit eleemosynary corporation whose purpose is to promote academic improvements, to assist in scholarship programs, to further the interests of the University, and to promote among its present and former students and friends a spirit of good fellowship and loyalty. The component unit is included as part of the primary entity because the Alumni Association provides services entirely to and for the benefit of the University. Information relating to the financial statements of the Alumni Association can be obtained from the University. The Alumni Association's financial statements were compiled by the Association and are unaudited.

Presentation of Component Units

Some component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals.

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity or in columns separate from the financial data of the primary entity. In both situations, the columns or financial statements are labeled "component units."

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)
To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

The University records receipts from operations of auxiliaries in unrestricted current funds as auxiliary enterprises revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on the student and faculty housing revenue bonds and notes are made from unrestricted current funds to the funds of the retirement of indebtedness plant funds subgroup and for repair and replacement reserve funds to unexpended plant funds.

Basis of Accounting - Discretely Presented Component Units
The University's discretely presented component units conduct business-like activities similar to those found in the private sector. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of financial position or net assets, changes in net assets and fund balances, and cash flows. The Foundation reviewed GASB Statement 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities and determined that it was a nongovernmental not-for-profit. The accounting policies of the Lander Foundation conform to GAAP applicable to not-for-profit model as prescribed by the Financial Accounting Standards Board (FASB). This entity uses the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The statements of activities report changes in net assets in total and separately in the applicable net asset classes. Furthermore, equity is distinguished among the classes of assets restrictions.

The Lander Alumni Association follows the cash basis of accounting except for the recognition of depreciation on fixed assets which is not GAAP. The Alumni Association recognizes contributions when collected and expenditures when paid.

Fund Accounting – University Funds
Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting – University Funds (Continued)
All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary mission of the University, which is instruction. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing and student health services, bookstore, food services, and vending. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was $629,139 at June 30, 1998.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, collectibility reserves, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers. At this time, the University has no donor-provided resources for loans.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets and debt related to expended or unexpended resources and repair and replacement reserve funds included in this

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting – University Funds (Continued)
fund subgroup. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Fund Accounting - Discretely Presented Component Units
The University's component units are nongovernmental not-for-profit organizations. These entities apply pronouncements issued by the FASB. Both entities maintain their accounting records on a fund basis. The Foundation reports its activities according to the three classes of net assets. However, the Alumni Foundation reports its activities in an unrestricted fund.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries
The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored grant, contract, and loan programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current and loan funds. Indirect cost recoveries must be remitted to the State General Fund except those received under student aid grants which may be retained by the University.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave, except that most faculty members do not accrue annual 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 and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Principal and interest on such contracts are recorded as expenditures in the current funds group and the retirement of the debt is recorded in the investment in plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land and land improvements and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Library books, periodicals, microfilms, and other library materials are recorded at cost when purchased or fair market value at the date of donation in the library collection account. Library book deletions are written off at year-end at average cost based on the actual number of volumes deleted. Periodical deletions are written off at year-end based on actual cost.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)
The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year; and all library materials.

When plant assets or library materials are sold, retired, or otherwise disposed of, the carrying value at cost or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest
The University does not capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do not include such interest costs. Omission of capitalized interest is not in conformity with GAAP. However, the University believes asset values are not significantly understated by this omission.

Deferred Revenues
In unrestricted current funds, deferred revenues primarily consist of student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

Student Deposits
Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, other deposits, and student fee refunds. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers
Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Prepaid Items
Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of credits on account for returned textbook inventories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents
The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit 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 invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Most State agencies including the University 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 cash management pool, see the deposits disclosures in Note 17.

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. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of 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 University's 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.

For the component units, cash equivalents include investments in short-term, highly liquid, unrestricted, nonequity investments having a maturity of three months or less.

Intraentity Transactions and Balances
Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit.

All expenditures and other intraentity transactions and balances between the University and its discretely presented component units or between those component units are reported separately. Revenues and expenditures with component units are not separately identified in the financial statements but are disclosed in the notes. Receivables/payables between the primary entity and its discretely presented component units are reported separately as inter-reporting entity/component unit transactions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intraentity Transactions and Balances (Continued)
Current amounts due to/from the same funds, between the University and its component units, or between component units are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum Only) Columns
Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

Accounting Policies of Discretely Presented Component Units
Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosures for such entities are separately identified within each applicable note.

Lander Foundation is a nongovernmental not-for-profit component unit which follows GAAP applicable to the FASB not-for-profit model. GAAP requires this entity to report information regarding financial position and activities in total and separately according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets and to present a statement of cash flows. Furthermore, equity is distinguished among the classes of assets restrictions. Investments are reported at current market value. Gains or losses that result from market fluctuations are recorded in the period in which the fluctuations occur. Investments in real estate are recorded at cost, if purchased, and at fair market value as of the date received, if received as a gift. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to current net assets.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Donated assets are recorded at their estimated fair value at date of receipt. Commitments for scholarships and grants from unrestricted net assets are generally budgeted on a yearly basis and expended within that operating cycle. Commitments of restricted net assets for scholarships and grant purposes are varied and are controlled by various legal requirements of each gift or grant. Permanently restricted assets consist primarily of endowment fund investments to be held indefinitely, the income from which is expendable to support the various programs of the University.

NOTE 2 - DEFICIT FUND BALANCE

The University records accrued compensated absences and related liabilities for leave benefits as they are earned by employees based on the requirements of GASB Statement No. 16 Accounting for Compensated Absences. The State establishes leave policy, but it does not fund the related liability for the University's employees funded from State General Fund appropriations until employees are paid for the leave. Also, the University does not accumulate assets to fund the liability to be paid to employees funded from other revenue sources. The difference between the funding policy and the required accounting treatment affected the components of fund balance of unrestricted current funds at June 30, 1998, as follows:

	Fund Balance Prior to Compensated Absences Accrual	Accrued Compensated Absences and Related Liabilities	Fund Balance (Deficit)
Auxiliary Enterprises	$664,784	$ 35,645	$ 629,139
Educational and General, Unallocated	24,926	1,003,580	(978,654)
Total Fund Balance, Net	$689,710	$1,039,225	$(349,515)

NOTE 3 - STATE APPROPRIATIONS

The University 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 available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 18H of Part IA of the 1997-98 Appropriation Act. 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, 1998:

Original Appropriation	$ 8,816,073
State Budget and Control Board Allocation for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.13.)	150,342
Appropriation Allocations from the State Commission on Higher Education:	
From Supplemental Appropriations of 1997 Surplus State Revenues for Additional Formula Funding (Part III of the 1998 Appropriation Act)	136,574
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1997 Joint Resolution R223, H3402)	314,249
For Palmetto Fellows Scholarships	95,146
From the Children's Education Endowment Fund for Need-Based Grants	431,168
For Access and Equity Desegregation Funding (Proviso 18A.7.)	4,425
For Higher Education Awareness Program	1,600
For Performance Funding	57,192

NOTE 3 - STATE APPROPRIATIONS (CONTINUED)

Transfer to the Budget and Control Board for Unexpended 1997 Appropriations (Proviso 17A.2.) for Total Quality and Management Training	(216)
Revised Appropriations - Legal Basis	10,006,553
Accrued Funding for Net Payroll Accrual Adjustments	28,682
Total State Appropriations Revenue - Accrual Basis	10,035,235
Less: Funding Reported in Restricted Current Funds	(527,914)
Funding Reported in Unrestricted Current Funds	$ 9,507,321

Certain of the University's payroll expenditures are funded from State General Fund appropriations. The "state appropriations receivable" reported in unrestricted current funds represents monies due from the State General Fund for applicable University personal services and employer contributions expenditures accrued at June 30 but paid in July from 1999 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

NOTE 4 - STATE CAPITAL IMPROVEMENT BONDS

In prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 1998, follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
479 of 1984	$ 987,760	$ 985,891	$ 1,869	$ -
R256 of 1991	12,828,739	12,593,183	235,556	-
111 of 1997	3,325,000	-	1,904,923	1,420,077
Total	$17,141,499	$13,579,074	$2,142,348	$1,420,077

All remaining funds authorized under Act 111 of 1997 will be available to the University during fiscal year 1999.

NOTE 5 - BONDS PAYABLE

At June 30, 1998, bonds payable consisted of the following:

	Interest Rates	Maturity Dates	June 30, 1998 Balance	1998 Maturities
Student and Faculty Housing Revenue Bonds Series 1976 A	7.75-8.0%	July 1, 2002	$635,000	$110,000

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The bonds payable have priority over any other claims to this revenue.

The bond resolution specifies the University must maintain a $170,000 debt service reserve fund and an amount equal to one half the next principal payment due in a debt service account on deposit with the bond fiscal agent, the trust department of a financial institution. At June 30, 1998, the University had $206,983 on deposit in the debt service reserve fund and $60,000 on deposit in the debt service account.

Beginning July 1, 1985, certain of the bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the trustee. The redemption prices (expressed as a percentage of the principal redeemed) for the bonds are 2.5 percent through January 1, 1997, and 2 percent thereafter.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 1998, are as follows:

Year Ending June 30	Principal	Interest	Total
1999	$120,000	$ 46,000	$166,000
2000	130,000	36,000	166,000
2001	145,000	25,000	170,000
2002	155,000	13,000	168,000
2003	85,000	3,400	88,400
Total Obligations	$635,000	$123,400	$758,400

The University reported interest expenditures of $50,800 related to the bonds for the year ended June 30, 1998.

NOTE 6 - NOTE PAYABLE

At June 30, 1998, Lander University had a note payable outstanding, as follows:

	Interest Rates	Maturity Dates	June 30, 1998 Balance	1998 Maturities
Student and Faculty Housing 1988 Note	5.5%	July 1, 2022	$2,745,089	$52,178

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing note except that debt service on this note payable to the U.S. Department of Education (DOE) is subordinate to that on the University's student and faculty housing revenue bonds.

Semiannual payments of $102,660 including principal and interest are due on January 1 and July 1 each year.

As required by the note agreement, the University must establish a debt service reserve account and deposit $25,665 semiannually into the reserve account until $205,320 has been accumulated. Once the University has met the full debt service reserve requirement, the University must deposit $30,000 annually into a repair and replacement reserve account until $300,000 has been accumulated. The debt service and repair/replacement reserves monies for this note are on deposit in State Treasurer accounts. At June 30, 1998, the University's debt service reserve account was fully funded. The balance in the repair and replacement reserve account was $125,276 of which $90,000 was restricted for repairs and maintenance of facilities. The debt service reserve account and the repairs and replacement account are accounted for in the retirement of indebtedness and unexpended plant funds subgroups, respectively.

Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 1998, are as follows:

Year Ending June 30	Principal	Interest	Total
1999	$ 55,087	$ 150,233	$ 205,320
2000	58,159	147,161	205,320
2001	61,402	143,918	205,320
2002	64,825	140,495	205,320
2003	68,440	136,880	205,320
2004 through 2022	2,437,176	1,566,567	4,003,743
Total Obligations	$2,745,089	$2,285,254	$5,030,343

The University reported interest expenditures of $151,707 related to the note for the year ended June 30, 1998.

NOTE 6 - NOTE PAYABLE (CONTINUED)

The Lander University Foundation, a component unit of the University, repaid its 1997 notes payable to banks in the amount of $1,078,800. Interest on the notes is payable at prime rates. Interest expense for fiscal year 1998 was $63,048.

NOTE 7 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, dormitories and office facilities) and equipment. In addition, the entity is obligated under a capital lease for the acquisition of computer equipment.

Future commitments for the capital lease and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1998, were as follows:

Year Ending June 30	Capital Leases Equipment	Operating Leases Real Property
1999	$ 43,408	$ 250,000
2000	43,408	250,000
2001	43,408	250,000
2002	-	250,000
2003	-	250,000
Total Minimum Lease Payments	130,224	$1,250,000
Less: Interest	(22,105)	
Principal Outstanding/Present Value of Net Minimum Payments	$108,119	

Capital Leases

The capital lease is payable in monthly installments and expires in fiscal year 2001. The University records current year debt service as expenditures in unrestricted current funds. Capital lease expenditures for fiscal year 1998 were $48,577, of which $15,628 represented interest. Interest rates range from 6.64% to 12.51%. Fiscal year 1998 expenditures include commitments paid on a copier lease that expired in May 1998.

The computer equipment lease requires the University to maintain the equipment in good repair and provides the University the option to purchase the equipment at fair market value at anytime during the lease term with thirty days notice to the lessor.

The carrying value of the computer equipment held under capital lease at June 30, 1998 is $255,713.

The University had no capital leases with related parties in the current fiscal year.

NOTE 7 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases

The University's noncancelable operating lease having remaining terms of more than one year expires in fiscal year 2003. In the normal course of business, operating leases are generally renewed or replaced by other leases. The University's noncancelable operating lease is payable on an annual basis and its cancelable equipment operating leases are generally payable on a monthly basis.

During fiscal year 1997, the University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease term is 50 years effective July 1, 1996, at the rental rate of one dollar per year. Greenwood County may continue to use the property 3 months each year, rent free, for its youth baseball program. The University has incurred $49,316 of unexpended plant funds expenditures for the baseball field which is capitalized as leasehold improvements in the investment in plant funds subgroup.

The University had certain other operating leases with component units in the current fiscal year. The University rented various real properties from the Lander Foundation. During the current fiscal year, the University purchased the properties from the Foundation; therefore, the University has no future obligations under the leases. Total real property operating lease expenditures paid in 1998 were $301,751, which includes $69,985 paid to the Foundation prior to the purchase. Total operating lease expenditures for equipment were $24,628. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 8 – INSTALLMENT NOTES PAYABLE

The University is obligated under installment purchase agreements for the acquisitions of computer software and a telephone switching system. The monthly payments on a continuing computer software agreement include principal plus interest at 6.08%. During the current fiscal year, the University acquired a telephone switching system at a cost of $348,835 financed by an installment purchase agreement. The telephone switching system agreement requires semiannual payments of principal plus interest at 4.62%. The first payment is due in fiscal year 1999. Installment note expenditures for fiscal year 1998 were $91,956, of which $18,079 represented interest.

Amounts including interest required to complete payment of obligations as of June 30, 1998, are as follows:

Year Ending June 30	Principal	Interest	Total
1999	$142,129	$28,768	$170,897
2000	150,115	20,782	170,897
2001	158,561	12,336	170,897
2002	72,877	6,063	78,940
2003	76,285	2,655	78,940
Total Obligations	$599,967	$70,604	$670,571

NOTE 8 – INSTALLMENT NOTES PAYABLE (CONTINUED)

The University records unrestricted current funds expenditures for the current year debt service requirements and retirement of debtedness in the investment in plant funds subgroup.

The installment notes payable are collateralized by assets with a carrying value of $741,571.

NOTE 9 - NONMANDATORY TRANSFERS

Revenues pledged for debt service when collected are recorded as revenue in the unrestricted current funds and immediately transferred to the retirement of indebtedness plant funds subgroup. The collections remain in the debt service accounts of the retirement of indebtedness plant funds until they are transferred by the State Treasurer into an account for housing auxiliary enterprise operations which the University reports in unrestricted current funds. The funds become available for transfer because of the maintenance of minimum balances including reserves and accounts for repair and replacement and for payment of debt service as required by bond indentures and law. A request for the transfer of funds in excess of required minimum balances is made by the University to the State Treasurer. In fiscal year 1998, the University made a nonmandatory transfer of $1,886,737 from the retirement of indebtedness plant funds subgroup to unrestricted current funds to finance housing auxiliary enterprise operations.

The University made nonmandatory transfers of $106,850 from unrestricted current funds to the unexpended plant funds subgroup for general project funding. The source of these funds was maintenance and repair fees.

NOTE 10 - PENSION PLANS

The Retirement Division of the State Budget and Control Board 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.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, 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.

NOTE 10 - PENSION PLANS (CONTINUED)

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 1998, 1997, and 1996, were $827,494, $785,663, and $763,708, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $16,439 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 plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

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

NOTE 10 - PENSION PLANS (CONTINUED)

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1998, 1997, and 1996, were $37,313, $38,211, and $37,992, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $724 and accidental death insurance contributions of $724 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds and unexpended plant funds subgroup’s functional expenditure categories to which the related salaries are charged.

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 pension 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 for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

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

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

NOTE 10 - PENSION PLANS (CONTINUED)

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.916 percent from the employer in fiscal year 1998.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were $107,291 (excluding the surcharge) from University as employer and $85,264 from its employees as plan members. In addition, the University paid $2,132 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 11 - 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 University 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 date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University 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 University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,000 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of $701,288 for the year ended June 30, 1998. As discussed in Note 10, the University paid $244,166 applicable to the 1.916 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.

NOTE 11 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

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

NOTE 12 – DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

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

NOTE 13 - INVENTORIES

Inventories for internal use are valued at cost. University bookstore inventories for resale are valued at the lower of cost or market using both the weighted average and first-in, first-out methods of valuing inventory. The following is a summary by inventory category of cost determination method and value at June 30, 1998:

Category	Method	
Textbooks - New	First-in, first-out	$ 53,698
Textbooks - Old	Weighted Average	45,603
Merchandise	First-in, first-out	53,383
		$152,684

NOTE 14 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, the amount due to unrestricted current funds from retirement of indebtedness funds are funds that are not restricted for debt service and available for housing operations. All of the amounts are payable within one year without interest. Individual interfund balances outstanding at June 30, 1998, were as follows:

	Receivable	Payable
Unrestricted Current Funds:		
Restricted Current Funds	$106,071	$ -
Loan Funds	-	46,139
Unexpended Plant Funds	-	56,642
Retirement of Indebtedness Plant Funds	53,699	-
Agency Funds	37,611	-
Total Unrestricted Current Funds	197,381	102,781
Restricted Current Funds:		
Unrestricted Current Funds	-	106,071
Loan Funds:		
Unrestricted Current Funds	46,139	-
Unexpended Plant Funds:		
Unrestricted Current Funds	56,642	-
Retirement of Indebtedness Plant Funds:		
Unrestricted Current Funds	-	53,699
Agency Funds:		
Unrestricted Current Funds	-	37,611
Totals	$300,162	$300,162

NOTE 15 – ACCOUNTS RECEIVABLE AND STUDENT LOANS RECEIVABLE

With minor exceptions, losses for student loans receivable and student accounts receivable are estimated based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1998, the allowance for student loans receivable in loan funds is valued at $194,468 and the allowance for student accounts receivable in unrestricted current funds is valued at $136,675. The University’s component units have not established an allowance for potential losses on student accounts receivables due to a low default rate.

NOTE 16 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects. At June 30, 1998, the University had retainages payable of $66,719 with a construction contractor related to these projects.

At June 30, 1998, the University had a $1,420,077 balance in capital improvement bond proceeds for the renovation of Barrett Science Hall and other uses. The University determined that the renovation did not meet the criteria to be capitalized. It did not have any outstanding commitments on this project at June 30, 1998.

In prior fiscal years, the University capitalized the Old Main Building Renovation in the applicable plant asset categories because the project was substantially complete and in use. In fiscal year 1998, the University expended and capitalized approximately $428,100 related to this project.

In fiscal year 1998, Lander used student fees to finance the purchase and installation of parking lot lights and leasehold improvements to the baseball field at a cost of $4,180 and $35,600, respectively. The purchase of a piano for $60,800 and the purchase of land and buildings from the Lander Foundation for $1,732,600 were financed using capital improvement bond proceeds.

At June 30, 1998, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities and noncapital equipment and furniture. Costs incurred during fiscal year 1998 on these projects amount to approximately $177,800. At June 30, 1998, the University had no remaining commitment balances related to these projects.

The University anticipates funding future projects out of current resources, state capital improvement bond proceeds, private gifts, and student fees.

NOTE 17 - DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers with the approval of the State Treasurer's Office. Deposits and investments of the University's component units are not under the State Treasurer's control.

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

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$ 2,083,514	Cash on Hand	$ 6,500
Investments	9,439,374	Deposits Held by State Treasurer	1,517,838
		Other Deposits	266,983
		Component Unit:	
		Cash on Hand	50
		Deposits	292,143
		Deposits Held by Broker for Investment	320,265
		Investments	9,119,109
	$11,522,888		$11,522,888

Deposits Held by State Treasurer

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

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

As disclosed in Note 6, the University must maintain debt service reserve and repair and replacement reserve accounts for the note payable. At June 30, 1998, the retirement of indebtedness plant funds include $205,320 restricted cash for the debt service reserve and the unexpended plant funds include $90,000 restricted cash for the repair and replacement reserve as required by the note agreement. In addition, the retirement of indebtedness plant funds include $188,060 restricted for July 1, 1998, principal and interest payments. This restricted cash is held by the State Treasurer.

NOTE 17 - DEPOSITS AND INVESTMENTS (CONTINUED)

Other Deposits and Component Unit Deposits
As disclosed in Note 5, the University must maintain debt service reserve and principal accounts for the bonds payable. At June 30, 1998, the retirement of indebtedness plant funds include $170,000 restricted cash for debt service reserve funds and $60,000 restricted cash for principal payment as required by the bond indentures. The restricted cash is on deposit with financial institutions. The total debt service deposits of $266,983 (including the $36,983 in excess of reserve requirements) are uncollateralized but are invested in a pooled fixed income fund which is collateralized by government securities invested in the name of the financial institution.

The University's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

(1) Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank)
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
(3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution but not in the entity's name.)

A summary of June 30, 1998, bank balances by risk category follows:

	Category				
	1	2	3	Bank Balance	Reported Amount
Bank Deposits:					
Lander University	$ -	$ -	$266,983	$266,983	$266,983
Component Units	164,125	-	128,018	292,143	292,143
	$164,125	$ -	$395,001	$559,126	$559,126

Component Unit Investments
The Lander Foundation, a component unit, has investments in securities, as authorized by trust agreement, and investments in real estate. Authorized investments include common trust funds, stocks, and bonds. All investments are stated at fair value. Purchases and sales are accounted for on the transaction date. Unrealized and realized gains and losses on securities transactions are recorded as investment income within support revenue. Earnings are recorded when received.

NOTE 17 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Unit Investments (Continued)

The Foundation's marketable securities investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Foundation's name. Deposits held by the broker do not meet the definition of investment securities and are not categorized. All of the Foundation's marketable securities are in risk category 3.

A summary of the securities held by the Foundation by type of investment were as follows at June 30, 1998:

Type of Investment	Reported Amount	Fair Value
Government and Corporate Bonds	$2,315,691	$2,315,691
Common Stocks	2,376,153	2,376,153
Common Trust Funds	4,427,265	4,427,265
Total Marketable Securities	$9,119,109	$9,119,109
Plus: Temporary Cash Deposits with Broker	$ 320,265	

The investment types listed above include all investment types in which Foundation monies were held throughout the fiscal year and the balances therein fluctuated minimally from the year-end balances.

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

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

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond and note trustee, and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

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

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED)

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 1998 expenditures applicable to these transactions are not readily available.

The University provided no services to other State agencies during the fiscal year. As subrecipient, the University received federal grant funds from other State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 1998 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 20 – ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this Statement requires the equity position of each fund and component unit of the reporting entity that sponsors the pool to be reported as assets in those funds and component units. Because the amounts are immaterial, the University has not restated its beginning fund balances as of July 1, 1997, for changes resulting from adoption of Statement No. 31. Balances at June 30, 1998, reflect the changes required by Statement No. 31.

During the year, the University records interest on debt service revenue in the auxiliary accounts in the unrestricted current fund. To comply with the debt covenant, which requires revenues and accrued interest to be available for debt service in the retirement of indebtedness fund, at the end of each fiscal year the University reclasses the interest earned from the unrestricted current fund to the retirement of indebtedness fund. In fiscal year 1997, the University reported the amount of interest earned as a due from current unrestricted fund to retirement of indebtedness fund. The University has restated its fund balances as of July 1, 1997, to reflect the error in reporting the interest as due to/from versus nonmandatory transfer.

NOTE 20 – ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

	Fund Balance – July 1, 1997		
	As Previously Reported	Restatement Adjustment	As Restated
Unrestricted Current	$460,658	$ 108,555	$569,213
Retirement of Indebtedness – Unrestricted, Designated	$673,182	$(108,555)	$564,627

The University corrected prior period errors related to the recording of capital assets in the investment in plant funds subgroup:

1. Equipment previously deleted is not obsolete.
2. Equipment purchased in prior fiscal years is not included in the asset account.
3. The University's inventory report has unidentifiable errors from prior fiscal years.
4. Donations to the curriculum lab were not capitalized.

Furthermore, management identified certain errors in the application of accounting principles regarding the investment in plant funds subgroup. Periodicals have a useful life of five years and should be capitalized. In fiscal year 1997, leasehold improvements to a baseball field leased from the County of Greenwood were not capitalized. Additional leasehold improvements were made in the current fiscal year. Therefore, management determined that the total value of leasehold improvements should be capitalized.

The University's fund balance as of July 1, 1997, has been restated for the investment in plant funds subgroup to reflect the correction of errors, capitalization of periodicals for fiscal years 1993-1997, and leasehold improvements made in fiscal year 1997.

The fund balances as of July 1, 1997, have been restated to reflect the error corrections in the investment in plant funds subgroup:

	Fund Balance – July 1, 1997		
	As Previously Reported	Restatement Adjustment	As Restated
Investment in Plant	$51,238,249	$461,547	$51,699,796

NOTE 21 - COMPONENT UNITS

The Lander Foundation, a nonprofit organization, was established to provide scholarships to worthy students of the University, to provide assistance in aiding and developing University faculty and staff, and to provide other means of support to the University, such as property acquisition and monetary support. The Lander University Alumni Association, also a nonprofit organization, was established by alumni to inform the public about the University. The financial information for these related, separately chartered legal entities has been included in the accompanying financial statements. The Foundation's financial statements available for the year ended June 30, 1998, were audited by independent auditors. The Alumni Association's financial statements were internally compiled by the Association. Various transactions occur between the University and its component units.

During the year ended June 30, 1998, the University awarded $487,140 in academic and athletic scholarships to qualifying students which are funded by the Foundation. In addition, the Foundation gave the University approximately $413,803 which was primarily used to purchase classroom and laboratory supplies and equipment. These amounts have been included in private gifts and grants and contract revenue in the University's current funds. The University recorded a $100 receivable from the Lander Foundation for scholarships and a $109,514 receivable for equipment and supplies. The receivable amount is an outstanding check on the Lander Foundation’s books; therefore, the Foundation has not recorded a corresponding payable.

The University paid the Foundation $69,985 in lease payments during 1998 for the rental of certain facilities owned by the Foundation. During the current fiscal year, the University purchased the facilities from the Foundation. The University paid the Foundation the appraised value of $1,700,500 for over 30 tracts of land and related buildings and land improvements. The University used capital improvement bond proceeds to fund this purchase. (See related notes 4 and 7.)

The University received $15,960 from the Alumni Association which it recorded as private gifts, grants and contracts revenue in unrestricted current funds and unexpended plant funds subgroup. The University used the funds to help defray the cost of the Alumni Office, certain student activities, and the baseball field improvements.

Assets of the Lander Foundation include $19,275 unconditional promises to give. These receivables balances, due in the next fiscal year, are for pledges for the purchase of computer and science equipment. The pledges are considered fully collectible.

The Foundation also invests funds for the Lander University Alumni Association. The total amount invested is included in the Foundation’s financial statements as both an investment and as due to Alumni Association, and totaled $162,424 at June 30, 1998. The due to Alumni Association includes total investment in addition to investment earnings for the Alumni Association.

NOTE 21 - COMPONENT UNITS (CONTINUED)

The following presents the statements of financial position at the fiscal year-ends of the discretely presented, blended component units.

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
ASSETS			
Cash and Cash Equivalents	$ 286,932	$ 5,261	$ 292,193
Student Loans Receivable	13,827	-	13,827
Investments	9,439,374	-	9,439,374
Due from Lander Foundation	-	162,424	162,424
Investments in Real Estate	170,170	-	170,170
Unconditional Promises to Give	19,275	-	19,275
Fixed Assets (Net of Accumulated Depreciation)	-	190	190
Total Assets	$9,929,578	$167,875	$10,097,453
LIABILITIES, NET ASSETS, AND FUND BALANCES			
Liabilities:			
Due to Alumni Association	$ 162,424	$ -	$ 162,424
Net Assets:			
Unrestricted	3,251,445	-	3,251,445
Temporarily Restricted	335,110	-	335,110
Permanently Restricted	6,180,599	-	6,180,599
Fund Balance, Unrestricted	-	167,875	167,875
Total Net Assets and Fund Balances	9,767,154	167,875	9,935,029
Total Liabilities, Net Assets, and Fund Balances	$9,929,578	$167,875	$10,097,453

NOTE 22 - RISK MANAGEMENT

Insurance Coverage
The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all such risks except business interruption insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The cost of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University 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.

State management believes it is more economical to manage certain risks internally and 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 University 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 University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered infirmaries and employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

NOTE 22 - RISK MANAGEMENT (CONTINUED)

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

As required by certain Federal grants, the University pays premiums for supplementary health insurance for volunteers associated with the grants.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses, limited to $100,000 for dishonesty and $50,000 for forgery, arising from dishonest or fraudulent acts.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted and restricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a State or commercial insurer.

Self-Insurance
The University has elected not to obtain business interruption insurance on its housing operations, an auxiliary enterprise. The university believes the risk of loss is remote and it is more economical to manage such risks internally.

Revenues and expenditures for 1998 related to housing operations were $2,227,990 and $2,123,879, respectively.

The University is unable to estimate lost revenues, the cost of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. However, the University estimates that it would be able to house displaced students in other University operated housing facilities in the event of a loss.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors.

In management's opinion, claims losses in excess of insurance coverage are unlikely. 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.

AUDITOR’S COMMENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 9, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the basic financial statements of Lander University as of and for the year ended June 30, 1998, and have issued our report thereon dated October 9, 1998. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit. We did not audit the financial statements of the Lander Foundation and the Lander University Alumni Association, component units of the University, which are discretely presented as part of the primary entity in the accompanying basic financial statements. The financial statements of the Lander Foundation were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. The financial statements of the Lander University Alumni Association have not been audited but were furnished to us by that organization. The financial statements of that organization reflect 1.7% of assets, 4.2% support, and 4.2% of expenses of the component units as of and for the year ended June 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

In planning and performing our audit of the basic financial statements of Lander University for the year ended June 30, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion or assurance on the internal control. Accordingly, we do not express such an opinion.

The management of the University is responsible for establishing and maintaining the internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of the internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control policies and procedures in the following categories: receivables, cash receipts, purchasing and receiving, accounts payable, cash disbursements, payroll, inventory control, property and equipment, and general ledger.

For all of the internal control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our audit procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

We noted matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the comments titled Fee Waivers and Auxiliary Enterprises.

A material weakness is a reportable 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 errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned duties.

Our consideration of the internal control 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 as defined above. We have classified the comment titled Plant Fund Accounting as a material weakness.

This report is intended solely for the information of management and the Board of Trustees. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

SECTION A - MATERIAL WEAKNESSES

PLANT FUND ACCOUNTING

The University reports funds to be used for the acquisition, renewal, and replacement of physical properties for institutional purposes but unexpended at fiscal year end in the unexpended plant funds subgroup; funds set aside for debt service charges and for the retirement of indebtedness on institutional properties in the retirement of indebtedness funds subgroup; and funds expended for and thus invested in institutional properties in the investment in plant funds subgroup.

For fiscal year 1998 and prior years, we proposed many adjusting journal entries to ensure that the University fairly presents its financial statements. The University does not record any current year activity in the investment in plant funds subgroup; it only posts our prior year adjustments as opening balance entries to the current year's general ledger.

The State Auditor's Office does not have adequate resources to provide this service to the University and still timely complete its audit of the University. Section AU 110.02 of the AICPA's Codification of Statements on Auditing Standards states,

> The financial statements are management's responsibility…Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will,…record, process, summarize, and report transactions (as well as events and conditions) consistent with management's assertions embodied within the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management…Thus, the fair representation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility…

Therefore, we recommend that the University assume full responsibility for its plant funds accounting. In the following sections, we will detail some of the plant fund issues that the University must address.

Library Collection

The University generally uses 56xx object codes to denote that an expenditure is a capital item. In prior years, the University capitalized only the library books and microfilm object codes. The controller obtains the number of additions and disposals by collection category from the library. We use this information and the library's general ledger expenditure accounts to propose journal entries for the library collection.

The University uses the following other 56xx accounts for the library: periodicals, card catalogues, and library dialog services. We determined that the card catalogues and library dialog services expenditures are contractual services not capital expenditures. The library maintains most periodicals for five years and then disposes of them. (Many are maintained indefinitely on electronic medium.) Certain periodicals are bound to maintain beyond five years. The library charges binding to object code 5240.

The library records receipts from lost book fines as a reduction of expenditures. This policy duplicates disposal amounts and understates the capitalization for current additions.

Also, the library has a category type titled special collection. The University has not capitalized this category. We determined that these items are donated, collectible items which should be recorded as additions at fair market value at the date of the gift.

The University's school of education maintains a curriculum lab with assistance from the library's staff. The University has not capitalized the curriculum lab collection. The University obtained most of this present collection by donation from textbook authors or distributors. In fiscal year 1999, the University plans additions for the lab funded by a Montessori education grant.

Generally accepted accounting principles states that the basis of valuation for assets purchased or constructed is cost; for assets acquired by gift it is fair market value at the date of gift. Library books should be valued at cost or some other reasonable basis.

Library Collection (Continued)

We proposed adjustments to the financial statements for fiscal year 1998, including a restatement of the beginning fund balance, to reflect the changes noted above. We also recommend that the University establish policies and procedures which will ensure that the University's library collection is properly capitalized. The staffs of the controller and the librarian should work together to ensure that records are maintained to ensure proper capitalization.

We recommend that the University implement the following additional procedures:

1. Move the two contractual services accounts to 52xx object codes.

2. The binding account is an ancillary cost of the collection and should be capitalized. Therefore, move this account to a 56xx object code.

3. Capitalize the cost of periodicals by maintaining the last five years' expenditures as the asset value for the periodicals category.

4. Establish a contra expenditure account for lost book fines. Reduce the book expenditures capitalized by this account balance.

5. Maintain records on collections donated. Establish a reasonable basis for valuation of these items and capitalize them as part of the collection.

6. Ensure that the collection of all satellite libraries, such as the curriculum lab, is recorded in the general ledger. Ensure that adequate controls and accounts exist to properly capitalize collections purchased and donated.

Equipment

The University maintains inventory control over its capitalized equipment by affixing a numbered decal to each item and listing each item by decal number on an inventory report. It updates its inventory report for each item purchased or considered obsolete. We noted the following exceptions related to the capitalization of equipment:

1. The University recorded fourteen items costing $191,077 as 1997 disposals yet it still included all of them on its 1998 inventory report.
2. It should not have recorded one $5,375 item as a 1997 disposal because it is still in use.
3. Of the remaining thirteen items, it actually disposed of nine items costing $65,302 in fiscal year 1998 but stored the remaining four costing $120,400 in a warehouse.
4. The University's final fiscal year 1998 inventory report listed another four items costing $29,869 as located in the warehouse; however, the University physically disposed these items.

5. The University purchased a $6,848 item in a prior year, removed it from the 1997 inventory report, and recorded it as a 1997 disposal; however, the University added the item back to its 1998 inventory report. The University physically disposed of the item during fiscal year 1998.
6. The University capitalized a spectrometer in fiscal year 1998 at a cost of $20,366. The correct amount is $21,216.
7. The 1998 report listed three 1997 additions twice. The 1997 report listed the three items at the correct amount. In 1998, the University added them again with different decal numbers and substantially higher costs.
8. The University added a $30,695 item purchased in fiscal year 1997 to the inventory report in fiscal year 1998. It omitted this item from its general ledger in 1997.
9. It added another item costing $6,088 to its 1998 inventory report but stated its purchase date as October 10, 1995. We did not determine what caused this error in prior years.
10. It did not capitalize a major installment purchase with a cost of $348,835. The purchase replaced obsolete telephone switching equipment, costing $286,419, which it did not delete from the report. Also, the University did not identify to us or record accounting transactions for the installment purchase.
11. The University recorded an equipment purchase over its capitalization limit of $5,000 as supplies expenditures and did not include it on the inventory report.
12. For three of the six recorded current year additions, the University did not include sales tax in the capitalized cost.

As mentioned above, the University maintains a warehouse in which it stores idle and possibly obsolete equipment and supplies. Many items have been idle and/or obsolete for years; however, the University has not promptly evaluated them for surplus or disposal. In fiscal year 1998, the University removed some items from the warehouse; however, it did not always document compliance with procurement laws regarding such disposals.

The University does not keep accurate records on its inventory report when it changes equipment locations. Consequently, it has difficulty verifying physical existence of its inventory and ensuring adequate inventory controls.

On July 1, 1996, the University raised its capitalization threshold to $5,000, which reduced its inventory report to six pages and approximately 150 items. However, the University does not have adequate internal controls over plant equipment. Effective internal controls include control procedures that provide adequate safeguards over access to and use

Equipment (Continued)

of assets as well as independent checks on performance and proper valuation of recorded amounts. Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, requires agencies to make an inventory of all property each fiscal year.

We proposed adjustments to the financial statements, including restatement of the beginning fund balance, to reflect the changes noted above. Also, we recommend that the University establish and implement policies and procedures over equipment to ensure proper reporting, compliance, and controls. Specifically, we recommend the University implement the following procedures:

1. Capitalize equipment at total cost which includes costs associated with placing the asset in its intended location and in operation, including ancillary charges such as sales tax and freight.

2. Capture all capital items by recording all equipment items over the threshold as 56xx object code expenditures and items under the threshold as 53xx (supplies) expenditures. Determine the proper object code when the purchase requisition/order is prepared.

3. Reconcile equipment additions per the inventory report to the equipment expenditures per the general ledger. Record the capitalization of equipment in the investment in plant funds subgroup. Reconcile the assets per the general ledger to the inventory report.

4. Centralize responsibility for leases and installment purchases and train those employee(s) in the proper accounting treatment for such transactions.

5. Appoint a custodian for each equipment item and develop controls to cover temporary and permanent location changes and disposals.

6. Take an annual inventory of property and use it as a tool to ensure control over the assets.

7. Review policies and procedures over the placement and subsequent removal of items from the warehouse. Follow the State's procurement laws for declaring items surplus and disposing of such items. Properly document this process by denoting and subtotaling on the inventory report the items declared surplus but not yet disposed in order to properly record them as disposals for financial statement purposes.

Unexpended Plant Funds Subgroup Accounting

The University primarily establishes general ledger accounts for its unexpended plant funds subgroup based on funding source. This method does not properly account for transactions and balances by project for proper capitalization of long-lived assets in the investment in plant funds subgroup.

In fiscal year 1998, the University primarily funded the expenditures recorded in unexpended plant funds from capital improvement bonds and its maintenance and renovation reserve fund. The University expended these funds to purchase over thirty parcels of land, buildings, and land improvements from the Lander Foundation; complete construction of Old Main; begin renovation of Barrett Hall; make leasehold improvements to the baseball field; make improvements to the parking lots; and other miscellaneous uses.

Because the University did not maintain its unexpended plant funds subgroup by project, we analyzed each transaction over $1,000 to determine its proper accounting in the plant funds. We determined that the University recorded Old Main expenditures in the Old Main, Barrett Hall, and maintenance and renovation-general accounts. The University needed to capitalize some transactions as part of the building, capitalize some as equipment, and expense others. Also, we determined the purchase from the Lander Foundation included ancillary costs that should be allocated to the various land and buildings and capitalized in the investment in plant funds subgroup.

The University uses its construction services department to perform much of the work on its current and recent projects. Costs related to work on any capital projects should be added to the project's capitalized cost in the investment in plant funds subgroup. We recommend that the University establish controls to ensure that construction services department costs are properly charged and capitalized, when appropriate.

Unexpended Plant Funds Subgroup Accounting (Continued)

We recommend that the University properly account for activity by project in its unexpended plant funds subgroup to facilitate proper and timely recording of all current year activity in its investment in plant funds subgroup.

Retirement of Indebtedness Funds Subgroup Accounting

Per debt covenants, the University transfers on January 1 half of its bond principal payment due July 1 from a State Treasurer's Office cash account to a custodial bank account. It records this transfer as an expenditure which creates a timing problem as it is not an expenditure until the following fiscal year (July 1). It also maintains a required reserve account with this bank. Both accounts accrue interest. The University does not record the principal cash account or the interest income for either account. The only accrual the University records is vendor accounts payable; therefore, we proposed accruals for interest receivable and payable for this as well as all other funds.

Housing revenue is pledged by debt covenant for payment of debt service on both the bond and the Department of Education note. Interest on all debt service and reserve accounts accrues to retire debt. The University records a mandatory transfer from housing in unrestricted current funds to the retirement of indebtedness funds subgroup, pays current year debt service, funds the required reserves, and records any excess as a nonmandatory transfer back to housing.

We proposed an entry to report the required transfer to the reserve account in unexpended plant funds as a mandatory transfer from retirement of indebtedness instead of unrestricted current funds subgroup. The University records some interest in housing. We proposed an entry to reclassify this revenue to the retirement of indebtedness funds subgroup, which also required entries to adjust the nonmandatory transfer of excess funds back to housing.

Retirement of Indebtedness Funds Subgroup Accounting (Continued)

We recommend that the University record all transactions related to the retirement of indebtedness in its general ledger correctly and timely.

Plant Funds Procurement

While reviewing expenditures over $1,000 in the unexpended plant funds subgroup and performing other disbursements testing, we noted the following procurement exceptions:

1. For leasehold improvements to the baseball field, we noted fourteen purchase requisitions to eight vendors with payments of approximately $19,150 which possibly violated the State's procurement code. (Because the University did not maintain separate accounts for each project, we could only estimate that the University expended over $30,000 on the field in fiscal year 1998.) The University stated that for eleven of these purchase requisitions the prices were "fair and reasonable", which is the requirement for purchases under $1,500. Most of these goods and services related to grading, concrete, or rebuilding the dugouts and were received/performed in February and March, 1998.

2. We noted five purchase requisitions to two vendors for cabinet and drawer locks for the Old Main project totaling $5,939. The University stated that prices were "fair and reasonable" as each requisition was less than or equal to $1,500. The University received these goods over a four month period.

3. The University contracted floor refinishing for two athletic facilities totaling $10,900 by issuing two purchase requisitions only two days apart. It prepared a verbal quote form for purchases $1501 - $5,000 for each requisition. The University required the work to be done in 10 days and received only one quote. It contacted two other vendors who stated that they could not perform the work that quickly. The University prepared a requisition for $6,000 and $4,900.

4. The University contracted parking lot sweeping on a monthly basis using a "fair and reasonable" purchase method as each month's amount was $1,400 - $1,500. It did convert to a yearly purchase with proper competitive purchasing based on the yearly amount starting in June, 1998.

Most of the exceptions occurred because these purchases did not follow the normal flow of procurement transactions through the University's procurement office. In our opinion, the University, at a minimum, violated the spirit of the State's procurement laws by splitting purchases to avoid the various levels of competitive purchasing. The University violated its own procedures with the $6,000 purchase by using procedures for purchases $5,000 or less. South Carolina Consolidated Procurement Code Section 11-35-1550 establishes competitive purchasing requirements based on the amount of the purchase. The thresholds are at $1,500, $5,000, and $10,000 and require different numbers of verbal or written quotes or bids.

Plant Funds Procurement (Continued)

We recommend the University require all procurement transactions be subject to proper oversight of its procurement office. It should provide training on procurement laws and controls to all employees responsible for procurement of goods and services.

SECTION B - OTHER REPORTABLE CONDITIONS

FEE WAIVERS

Proviso 72.15. of the 1997-1998 Appropriation Act states, “Senior colleges, universities and technical colleges may offer educational fee waivers to no more than two percent of the undergraduate student body.” During the current fiscal year, the University offered $195,984 in educational fee waivers.

The University could not provide documentation to support its computation of the $195,984 fee waivers offered. No policy exists to ensure that a reasonable and consistent method is used to compute the amount of fee waivers each year and to ensure compliance with the proviso. The University provided us with two separate methods of computing maximum allowable educational fee waivers to ensure compliance with the proviso. Upon review of the University’s methodology to determine compliance with the proviso, we questioned several of the underlying assumptions made by management. Therefore, we could not determine if the University complied with the proviso.

We recommend the University establish a written policy to compute the educational fee waivers and apply the policy consistently. The policy should be approved by the South Carolina Commission on Higher Education to ensure compliance with the proviso.

AUXILIARY ENTERPRISES

The University operates the following auxiliary enterprises: housing and health, bookstore, food services, and vending. In fiscal year 1998, the University made the following transfers from auxiliaries to education and general:

Housing and Health Services	$ 94,500
Bookstore	214,882
Food Services	53,136
Vending	87,345
Total	$449,863

The University used these funds mostly for educational and athletic scholarships.

Part IB, Section 72.8. of the 1997-98 Appropriation Act addresses revenues collected at the State's universities and states in part,

> …it is further required that no such fee or income shall be charged in excess of the amount that is necessary to supply the service, or fulfill the purpose for which such fee or income was charged. Notwithstanding other provisions of this act, funds at State Institution of Higher Learning derived wholly from athletic or other student contests, from the activities of student organizations, and from the operations of canteens and bookstores, … may be retained at the institution and expended by the respective institutions only in accord with policies established by the institution's Board of Trustees…"

The University violated this provision of the Act by charging amounts in excess of what is necessary and then transferring the excess funds from food services and housing and health services to fund scholarships.

Generally accepted accounting principles defines an auxiliary enterprise as an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities.

As reported in Note 2 to the financial statements, the fund balance of the unrestricted current funds subgroup (comprised of auxiliary enterprises and educational and general) has a deficit. Although auxiliary enterprises have an overall positive fund balance, they decreased $108,636 during fiscal year 1998.

We observed that the University's auxiliaries are incurring or will soon incur significant repair and replacement costs for roofing, plumbing, guttering, and decking. Therefore, the auxiliaries need to build adequate fund balances to cover these costs. The University should consider the propriety of transferring funds from auxiliary enterprises, even when allowed by the Appropriation Act, against the requirement for auxiliaries to be self-supporting activities.

We recommend the University comply with State law by not charging fees in excess of that necessary to provide the service and by not transferring funds from its food services and housing and health services. Even if allowed by State law, we recommend the University not transfer funds from auxiliaries unless it has determined that a real excess exists. It should determine that fund balances will be sufficient to cover future repair and replacement costs.

MANAGEMENT'S RESPONSE

LANDER UNIVERSITY

November 23, 1998

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

Re: 1997-98 Audit
Management Response to Recommendations

Dear Mr. Wagner:

We received the Draft Copy of the 1997-98 Audit for Lander University. We have reviewed the draft report and following are Management Responses to the recommendations included in Section III of the report, AUDITOR'S COMMENTS, INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL:

MATERIAL WEAKNESS

PLANT FUND ACCOUNTING – Pages 47 – 55
Overall Recommendation – Page 47
Management Response: Having now been advised that prior years' practice for recording investment in plant funds is affecting the audit team's ability to complete the audit on a timely basis, the University will implement the recommendation and assume full responsibility for its plant fund accounting.

Library Collection – Recommendation, Page 49
Management Response: Recommendation will be implemented.

Equipment – Recommendation, Page 51
Management Response: The University is aware of problems in this area. Prior to the end of last year, action was already underway to improve the orderliness of the University's warehouse and address proper disposal procedures for obsolete equipment. Further action is needed in this area and will be ongoing in 1998-99. With regard to the recommended procedures for control over equipment, these recommendations are essentially procedures that are already in place at the University but have not been being implemented as diligently as they should have been. Action is already underway to reorganize and clarify responsibilities and expectations in this area. The recommendation will be implemented.

Unexpended Plant Funds Subgroup Accounting – Recommendations, Pages 52 and 53
Management Response: Recommendation will be implemented.

Retirement of Indebtedness Funds Subgroup Accounting – Recommendation, Page 54
Management Response: Recommendation will be implemented.

Plant Funds Procurement – Recommendation, Page 55
Management Response: The University takes great pride in the integrity of its procurement operation as confirmed by exemplary re-certification audit reports every every three years since enactment of the Model Procurement Code. It is certainly not the intent of the University to violate the State's procurement laws in practice or in spirit. Errors and oversights sometimes occur, but we make every effort to keep them to a minimum and to address them with those responsible to emphasize the importance of following correct procedure. The recommendation is duly noted, and the University will continue its determination to maintain the integrity of its procurement procedures.

OTHER REPORTABLE CONDITIONS

FEE WAIVERS – Recommendation, Page 56
Management Response: The University did provide documentation of the calculation. The two separate methods referred to in the finding resulted from the fact that the first one presented was found to contain an error and the second one corrected the error. Management stands by the validity of its assumptions on the corrected computation that confirms compliance with the proviso.

The University will consider the recommendation to establish a written policy to compute the educational fee waivers. However, if such a policy is developed, the recommendation for approval is inappropriate. This matter has been discussed on several occassions with CHE staff and the other institutions, and the concensus has been that this is an institutional matter.

AUXILIARY ENTERPRISES – Recommendations, page 58
Management Response: The University is very aware of the requirement that Auxiliary Enterprises be operated on a self-supporting basis and of the need to build adequate fund balances to provide for future repair and replacement costs. The reference to "transferring excess funds from food services and housing and health services to fund scholarships" in the audit finding and recommendation is somewhat misleading. It implies that the University found that it had excess funds in these two areas and simply decided to give it out in scholarships. That was not the case. The "transfer" of these funds arose due to a change in the method of accounting for fee waivers. The University had been accounting for fee waivers as reduction of revenues. The auditors pointed out that under GAAP, fee waivers should be shown as expenditures under E & G – Scholarships. This necessitated the transfer. The reason that any food service and housing and health service funds were involved is the well-intentioned effort by the University to match revenues and expenditures correctly. Several years ago, the University, in an effort to keep the State's brightest and best students in S.C., began offering a Presidential scholarship to S.C. graduating seniors who had a minimum of 1300 on the SAT or 30 on the ACT and ranked in the top ten percent of the high school senior class. This scholarship was for full University fees, room, and board and was funded through fee waivers. The University's position is that proper accounting procedure is to charge each of these three areas with their appropriate share of the waiver, and that has been done. In any case, this area of concern will soon become a non-issue. The University realized last year that the response to the Presidential scholarship far exceeded our expectations and we could not continue to offer room and board fee waivers. Therefore, no such scholarships were awarded this fall and no more will be awarded in the future. Since the scholarships were for four years, the University will be in the process of honoring its committment to students on this scholarship over the next three years as it is phased out.

With regard to the final report, Lander's preference is to have the Management Responses inserted right after the Recommendation to which the response is being made. If that presents significant problems, including this letter as the final section of the report will be acceptable.

I appreciate the work done by the audit team from your office and their constructive recommendations for improvements.

Sincerely,

W.E. Troublefield, Jr.
Vice President for Business and Administration

cc: William C. Moran
Mary Jo Cook
M. Blair Willingham