

SOUTH CAROLINA STATE UNIVERSITY
ORANGEBURG, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 1998

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INDEPENDENT AUDITOR'S REPORT

October 16, 1998

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

We have audited the accompanying basic financial statements of South Carolina State 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 financial statements based on our audit.

Except as discussed in the following paragraph, 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 provides a reasonable basis for our opinion.

The University did not perform a physical inventory of its equipment during the fiscal year, stated in the accompanying financial statements at \$21,759,245 as of June 30, 1998. We were unable to satisfy ourselves as to the cost of equipment by other auditing procedures.

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

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
October 16, 1998

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the University's physical inventory of equipment, the basic financial statements referred to above present fairly, in all material respects, the financial position of South Carolina State University at June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20 to the financial statements, the University changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

These financial statements exclude the related entities described in Note 15 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

SOUTH CAROLINA STATE UNIVERSITY

Balance Sheet
June 30, 1998

ASSETS

CURRENT FUNDS

Unrestricted:

Cash and Cash Equivalents (Note 14)	\$ (79,128)
Accounts Receivable, Net (Note 12)	1,462,350
Inventories (Note 10)	601,867
Interest/Endowment Income Receivable	2,022
Prepaid Items	41,167
Other Receivables (Note 12)	153,314
Due from Restricted Current Funds	1,885,393

Total Unrestricted	<u>4,066,985</u>
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Restricted:

Interest/Endowment Income Receivable	8,117
Grants Receivable - Federal	2,387,598
Grants Receivable - State	522,247

Total Restricted	<u>2,917,962</u>
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Total Current Funds	<u>\$6,984,947</u>
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LOAN FUNDS

Cash and Cash Equivalents (Note 14)	\$ 224,062
Interest Receivable	4,365
Notes Receivable (Note 12):	
Perkins Loan Program	1,232,072
Student Loan Fund	6,315
African American Teacher Loan Program	401,993
Education Improvement Act Loan Program	278,999

Total Loan Funds	<u>\$2,147,806</u>
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LIABILITIES AND FUND BALANCES

CURRENT FUNDS

Unrestricted:

Accounts Payable	\$ 840,191
Accrued Payroll and Related Liabilities	839,191
Deferred Revenues and Student Deposits (Note 1)	1,184,072
Accrued Annual Leave and Related Liabilities	2,134,425
Note Payable (Note 4)	2,100,000
Accrued Interest Payable	5,162
Due to State General Fund	167,733
Other Liabilities	6,593
Fund Balance (Deficit) (Note 19)	(3,210,382)
Total Unrestricted	<u>4,066,985</u>

Restricted:

Accounts Payable	221,969
Accrued Payroll and Related Liabilities	1,542
Due to Unrestricted Current Funds	1,885,393

Fund Balances:

Federal, State, and Private Grants	649,095
Scholarships	159,963

Total Restricted	<u>2,917,962</u>
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Total Current Funds	<u>\$ 6,984,947</u>
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LOAN FUNDS

Fund Balances:

Perkins Loan Fund	\$ 1,450,726
Donor Restricted	697,080

Total Loan Funds	<u>\$ 2,147,806</u>
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SOUTH CAROLINA STATE UNIVERSITY
Balance Sheet
June 30, 1998

ASSETS

ENDOWMENT AND SIMILAR FUNDS

Cash and Cash Equivalents (Note 14)	\$ 567,371
Interest Receivable	1,258
Investments (Note 14)	<u>101,417</u>
Total Endowment and Similar Funds	\$ <u>670,046</u>

PLANT FUNDS

Unexpended:	
Cash and Cash Equivalents (Note 14)	\$ 2,805,348
Interest Receivable	12,124
Capital Improvement Bond Proceeds	
Receivable (Note 3)	5,736,387
Federal Grants and Contracts Receivable	<u>233,770</u>
Total Unexpended	<u>8,787,629</u>

Retirement of Indebtedness:

Cash and Cash Equivalents (Note 14)	434,555
Interest Receivable	<u>7,262</u>
Total Retirement of Indebtedness	<u>441,817</u>

Investment in Plant:

Land	1,628,558
Buildings and Improvements	60,041,811
Equipment	21,759,245
Library Books	4,887,725
Construction in Progress (Note 13)	<u>12,854,219</u>
Total Investment in Plant	<u>101,171,558</u>
Total Plant Funds	<u>\$110,401,004</u>

AGENCY FUNDS

Cash and Cash Equivalents (Note 14)	\$ 389,163
Accounts Receivable (Note 12)	<u>4,162</u>
Total Agency Funds	<u>\$ 393,325</u>

LIABILITIES AND FUND BALANCES

ENDOWMENT AND SIMILAR FUNDS

Fund Balances:	
Endowment - Restricted	\$ 434,712
Quasi-Endowment - Unrestricted	<u>235,334</u>
Total Endowment and Similar Funds	\$ <u>670,046</u>

PLANT FUNDS

Unexpended:	
Accounts Payable	\$ 702,109
Retainages Payable	445,682
Fund Balances:	
Restricted	5,970,157
Unrestricted, Designated	<u>1,669,681</u>
Total Unexpended	<u>8,787,629</u>

Retirement of Indebtedness:

Accrued Bond Interest Payable	82,743
Fund Balances - Restricted	<u>359,074</u>
Total Retirement of Indebtedness	<u>441,817</u>

Investment in Plant:

Note Payable (Note 4)	1,062,133
Capital Lease Obligations (Note 4)	76,796
Bonds Payable (Note 4)	6,655,000
Net Investment in Plant	<u>93,377,629</u>
Total Investment in Plant	<u>101,171,558</u>
Total Plant Funds	<u>\$110,401,004</u>

AGENCY FUNDS

Deposits Held for Others	\$ 393,325
Total Agency Funds	<u>\$ 393,325</u>

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

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			<u>TOTAL</u>
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>LOAN FUNDS</u>	<u>ENDOWMENT AND SIMILAR FUNDS</u>	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	<u>(MEMORANDUM ONLY)</u>
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$48,164,248	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,164,248
State Appropriations (Note 2)	-	635,525	180,000	-	-	-	-	815,525
Federal Grants and Contracts - Restricted	-	14,857,060	-	-	406,297	28,472	-	15,291,829
State Grants and Contracts - Restricted	-	1,390,262	133,870	-	-	-	-	1,524,132
Private Gifts, Grants and Contracts - Restricted	-	268,962	-	3,208	-	-	-	272,170
Interest Income - Restricted	-	-	20,914	7,356	95,743	80,596	-	204,609
Endowment Income - Restricted	-	46,648	-	-	-	-	-	46,648
Interest and Fees on Student Loans	-	718	85,027	-	-	-	-	85,745
Expended for Plant Facilities (Including \$2,291,307 Charged to Current Funds Expenditures)	-	-	-	-	-	-	8,727,471	8,727,471
Retirement of Indebtedness	-	-	-	-	-	-	658,252	658,252
Student Tuition and Fees	-	-	-	-	-	672,664	-	672,664
Other Additions	-	4,029	-	9,680	-	-	-	13,709
Total Revenues and Other Additions	<u>48,164,248</u>	<u>17,203,204</u>	<u>419,811</u>	<u>20,244</u>	<u>502,040</u>	<u>781,732</u>	<u>9,385,723</u>	<u>76,477,002</u>
Expenditures and Other Deductions:								
Educational and General Expenditures	37,374,104	16,951,026	-	-	-	-	-	54,325,130
Auxiliary Enterprises Expenditures	12,277,862	-	-	-	-	-	-	12,277,862
Indirect Cost Recoveries Remitted to State	277,733	-	-	-	-	-	-	277,733
Indirect Costs Recovered	-	535,912	-	-	-	-	-	535,912
Provision for Uncollectible Loans	-	-	100,810	-	-	-	-	100,810
Administrative and Collection Costs	-	-	165,968	-	-	-	-	165,968
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$377,954)	-	-	-	-	6,814,118	-	-	6,814,118
Retirement of Indebtedness	-	-	-	-	-	658,252	-	658,252
Interest on Indebtedness	-	-	-	-	-	470,872	-	470,872
Disposal of Plant Facilities	-	-	-	-	-	-	628,437	628,437
Total Expenditures and Other Deductions	<u>49,929,699</u>	<u>17,486,938</u>	<u>266,778</u>	<u>-</u>	<u>6,814,118</u>	<u>1,129,124</u>	<u>628,437</u>	<u>76,255,094</u>

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTAL (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Transfers Among Funds - Additions/(Deductions):								
Mandatory from Auxiliary Enterprises Funds for								
Principal and Interest	(698,740)	-	-	-	-	698,740	-	-
Nonmandatory: (Note 6)								
Transfers for Operations	1,075,026	-	-	-	(581,084)	(493,942)	-	-
Transfer from Unrestricted Current Funds for:								
Capital Projects	(243,500)	-	-	-	243,500	-	-	-
Debt Service	(234,497)	-	-	-	-	234,497	-	-
Transfer from Loan Funds	-	53	(53)	-	-	-	-	-
Net Transfers Between Current Funds	(17,072)	17,072	-	-	-	-	-	-
Transfer from Unexpended Plant Funds	-	-	-	-	(63,277)	63,277	-	-
Transfer of Debt Representing Plant Additions	-	-	-	-	418,222	-	(418,222)	-
Total Transfers	<u>(118,783)</u>	<u>17,125</u>	<u>(53)</u>	<u>-</u>	<u>17,361</u>	<u>502,572</u>	<u>(418,222)</u>	<u>-</u>
Net Increases (Decreases) for the Year	(1,884,234)	(266,609)	152,980	20,244	(6,294,717)	155,180	8,339,064	221,908
Fund Balances, Beginning of Year, as Restated	<u>(1,326,148)</u>	<u>1,075,667</u>	<u>1,994,826</u>	<u>649,802</u>	<u>13,934,555</u>	<u>203,894</u>	<u>85,038,565</u>	<u>101,571,161</u>
Fund Balances (Deficit), End of Year	<u><u>\$(3,210,382)</u></u>	<u><u>\$ 809,058</u></u>	<u><u>\$2,147,806</u></u>	<u><u>\$670,046</u></u>	<u><u>\$ 7,639,838</u></u>	<u><u>\$ 359,074</u></u>	<u><u>\$93,377,629</u></u>	<u><u>\$101,793,069</u></u>

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

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

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Revenues:			
Student Tuition and Fees	\$12,638,983	\$ -	\$12,638,983
State Appropriations (Note 2)	23,418,585	635,524	24,054,109
Federal Grants and Contracts	535,912	14,214,873	14,750,785
State Grants and Contracts	-	1,773,813	1,773,813
Private Gifts, Grants and Contracts	226,004	326,816	552,820
Endowment Income	11,723	-	11,723
Sales and Services of Educational Activities	162,429	-	162,429
Sales and Services of Auxiliary Enterprises	10,711,249	-	10,711,249
Interest Income - Auxiliary Enterprises	17,645	-	17,645
Other Sources	<u>441,718</u>	<u>-</u>	<u>441,718</u>
Total Current Revenues	<u>48,164,248</u>	<u>16,951,026</u>	<u>65,115,274</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	17,307,440	2,741,421	20,048,861
Research	216,040	2,088,227	2,304,267
Public Service	192,208	3,460,061	3,652,269
Academic Support	5,469,101	942,118	6,411,219
Student Services	3,375,654	343,030	3,718,684
Institutional Support	5,390,038	887,472	6,277,510
Operation and Maintenance of Plant	4,785,670	-	4,785,670
Scholarships and Fellowships	<u>637,953</u>	<u>6,488,697</u>	<u>7,126,650</u>
Educational and General Expenditures	<u>37,374,104</u>	<u>16,951,026</u>	<u>54,325,130</u>
Auxiliary Enterprises:			
Expenditures	12,277,862	-	12,277,862
Mandatory Transfers for Principal and Interest	<u>698,740</u>	<u>-</u>	<u>698,740</u>
Total Auxiliary Enterprises	<u>12,976,602</u>	<u>-</u>	<u>12,976,602</u>
Total Expenditures and Mandatory Transfers	<u>50,350,706</u>	<u>16,951,026</u>	<u>67,301,732</u>

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

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	1,075,026	53	1,075,079
Nonmandatory Transfers Out	(477,997)	-	(477,997)
Net Transfers Between Current Funds	(17,072)	17,072	-
Excess of Restricted Receipts Over Transfers to Revenues	-	(283,734)	(283,734)
Indirect Cost Recoveries Remitted to the State General Fund	(277,733)	-	(277,733)
	<hr/>	<hr/>	<hr/>
Total Other Transfers and Additions/ (Deductions)	<u>302,224</u>	<u>(266,609)</u>	<u>35,615</u>
Net Increases (Decreases) in Fund Balances	<u><u>\$ (1,884,234)</u></u>	<u><u>\$ (266,609)</u></u>	<u><u>\$ (2,150,843)</u></u>

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

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Carolina State 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.

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 or entity that holds one or more 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. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only South Carolina State University (a primary entity).

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

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 59-127-10 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 University is managed and controlled by a Board of Trustees, composed of thirteen members, twelve of whom are elected by the General Assembly, one member from each congressional district and six at large for terms of four years and until their successors are elected and qualify. The Governor of the State or his designee is ex officio, the thirteenth member of the Board of Trustees.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of South Carolina State University.

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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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.

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.

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.

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, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or when the endowment agreement requires the income to be added to the corpus. For these exceptions, income is reported in the endowment and similar funds group. Certain endowment agreements which require current earnings not used for the restricted purpose to be added to the corpus, the University records a mandatory transfer to move these monies to the endowment fund group.

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

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. 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 unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, housing, bookstore, food services, and student health services. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was a deficit balance of \$4,776,471 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.

The *Endowment and Similar Funds* group includes endowment funds and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

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 (and any debt related to unexpended resources) to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. 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, other debt service charges related to plant fund indebtedness (except for capital lease obligations), and federal interest subsidies. 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 University capitalizes major additions to plant assets and qualifying equipment with a unit value in excess of \$500 and a useful life in excess of one year.

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.

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 government-sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. For fiscal year 1998, the University retained \$258,179 of indirect cost recoveries.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

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 of 45 days annual vacation leave, except that non-administrative faculty members who are employed less than twelve months annually 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 leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the University's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1998. 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 plant assets acquired prior to July 1, 1990, and 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. Plant assets acquired prior to July 1, 1990, are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through 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. Payments of principal and interest on such contracts are recorded in the applicable educational and general expenditure categories of the current funds group as the installments are paid.

Land improvements include parking lots, landscaping and other like improvements which are valued at cost and are capitalized. They do not include infrastructure assets like streets and sidewalks, drainage systems or lighting which are not capitalized.

Construction expenditures 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

Library books and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation and are capitalized. Periodicals and microfilm are not capitalized.

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.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of \$500 and a useful life in excess of one year.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical 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 capitalizes 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 include such interest costs. During fiscal year 1998, the University had no debt associated with capital projects and therefore no capitalized interest.

Deferred Revenues

Deferred revenues consist primarily of student tuition and fees and room and board and bookstore collected in advance for the summer and fall academic terms and receipts collected in advance for athletic events. 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 and library deposits. 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Educational Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from off-campus programs, the museum, radio station, Head Start class, planetarium, and various similar programs.

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 insurance, travel reservations and seminar deposits.

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, and cash invested in various instruments by the State Treasurer as part of the State's cash management pool.

Most State agencies including the University participate in the 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 14.

The State's 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 by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily interest receivable to the total undistributed income receivable by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another fund or a related party are recorded as expenditures in the reimbursing fund or, in the case of those for external parties, eliminated.

Total (Memorandum Only) Column

The total column on the statement of changes in fund balances is captioned "memorandum only" to indicate that it presents aggregations 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.

NOTE 2 - 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.

In addition to state appropriations revenue, pursuant to Proviso 19A.35., the University received \$261,000 of Education Improvement Act (EIA) funds from the State Commission on Higher Education for the recruitment of minority students to pursue teaching careers which is reported as state grant and contract revenue in the restricted current funds group.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 18J 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	\$21,044,749
State Budget and Control Board Allocation for Employee Base Pay Increases and Related Employee Benefits	348,063

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

Appropriation Allocations from the State

Commission on Higher Education:

From Capital Reserve Fund Appropriations	766,748
From Carnell Felder Set Aside Fund	333,230
For Additional Performance Funding (Proviso 18A.27.)	123,225
For Palmetto Fellows Scholarships	10,000
From the Children's Education Endowment Fund for Need-Based Grants	624,205
For Access and Equity Desegregation Funding (Proviso 18A.7.)	105,319
For Higher Education Awareness Program	1,320
For African-American Teacher Loan Program: Pursuant to Proviso 18A.22.	130,000
From Carnell Felder Set Aside Fund (June 1998 H3400 Part III)	50,000

Supplemental Appropriations from 1997 Surplus

State Revenues for School of Business Accreditation	500,000
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Appropriation Transfer to the State Budget and Control

Board for Unused Total Quality Management (TQM) Funds	(6,750)
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Appropriation Transfer from the State Department of

Education for the Felton Lab School	<u>204,000</u>
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Total State Appropriations Revenue - Accrual Basis

24,234,109

Less: Higher Education Grant/Scholarship and Other Grant
Funding:

Reported in Restricted Current Funds	635,524
Reported in Loan Funds	<u>180,000</u>

Funding Reported in Unrestricted Current Funds

\$23,418,585

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 1998 and 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. 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:

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (CONTINUED)

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1998</u>	<u>Balance Authorized June 30, 1998</u>
638 of 1988	\$ 642,500	\$ 634,580	\$ -	\$ 7,920
522 of 1992	6,000,000	757,815	4,636,184	606,001
111 of 1997	<u>5,600,000</u>	<u>-</u>	<u>477,534</u>	<u>5,122,466</u>
Total	<u>\$12,242,500</u>	<u>\$1,392,395</u>	<u>\$5,113,718</u>	<u>\$5,736,387</u>

NOTE 4 - BONDS AND NOTES PAYABLE

Bonds Payable

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

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1998 Balance</u>
Student and Faculty Housing Revenue Bonds - Series 1991A	4.5%-6.7%	6/1/2012	\$4,110,000
Stadium Improvement Revenue Bonds - Series 1993A	3.0%-5.5%	1/1/2013	<u>2,545,000</u>
Total - Included in Investment in Plant Funds			<u>\$6,655,000</u>

The University receives loan subsidies from the U.S. Department of Housing and Urban Development designated to pay interest on the student and faculty housing revenue bonds. The various bond indentures restrict the use of particular revenue sources. Revenue received for dormitory and married student housing and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. All stadium revenue which includes admission fees and special student fees is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on stadium improvement revenue bonds.

The University is required to establish debt reserve funds for the purpose of repaying the student and faculty housing revenue bonds and stadium improvement revenue bonds. In lieu of cash and investments, the University has purchased a surety bond for each of the revenue bond issues which will satisfy the debt requirements upon notice that there are insufficient funds to do so. Repayment of the principal and interest will be guaranteed by Municipal Bond Investors Assurance Corporation pursuant to its insurance policies through final maturity for each of these bonds.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 4 - BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

For the stadium improvement revenue bonds, the University must maintain its admission fees and special student fees at amounts necessary to maintain certain specified funding requirements. For the student and faculty housing revenue bonds, the University must generate net revenues available for debt service of not less than 120 percent of debt service payments due in each bond year.

In addition, the student and faculty housing and stadium improvement revenue bonds resolutions require the University to establish housing and stadium improvement funds for the purpose of building up and maintaining reasonable reserves for contingencies, improvements, expansions, and renovations of those facilities through deposits made annually each June 15 and December 15. The University has not determined what a reasonable reserve should be however, during fiscal year 1998 the University increased the reserve account of the stadium improvement fund to \$450,509 and increased the reserve account of the housing improvement fund to \$916,176. These funds are included in the restricted fund balance in unexpended plant funds.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2003, in whole at any time or in part on any January 1 or July 1, upon thirty (30) days' notice, par.

The student and faculty housing revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after June 1, 2001, in whole at any time or in part on any June 1 or December 1, upon thirty (30) days' notice, at par.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 195,000	\$ 256,733	\$ 451,733
2000	205,000	246,008	451,008
2001	220,000	234,528	454,528
2002	230,000	221,988	451,988
2003	245,000	208,648	453,648
2004 through 2012	<u>3,015,000</u>	<u>1,068,073</u>	<u>4,083,073</u>
Total Obligations	<u>\$4,110,000</u>	<u>\$2,235,978</u>	<u>\$6,345,978</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 4 - BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

Amounts as of June 30, 1998, including interest required to complete payment of the stadium improvement revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 125,000	\$ 122,697	\$ 247,697
2000	125,000	117,948	242,948
2001	135,000	112,947	247,947
2002	140,000	107,413	247,413
2002	140,000	101,533	241,533
2003 through 2013	<u>1,880,000</u>	<u>582,959</u>	<u>2,462,959</u>
Total Obligations	<u>\$2,545,000</u>	<u>\$1,145,497</u>	<u>\$3,690,497</u>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement for state institution bonds are recorded directly in the funds for retirement of indebtedness as tuition revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on student and faculty housing revenue bonds and on stadium improvement bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

On March 9, 1983, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the housing revenue bonds, Series 1972, are considered defeased, the liability for the defeased bonds has been removed from the investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 1998, bonds outstanding of \$520,000 are considered defeased.

The University reported principal retirements and interest expenditures related to the bonds as follows for the year ended June 30, 1998.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
State Institution	\$200,000	\$ 9,533
Student and Faculty Housing Revenue	185,000	265,889
Stadium Improvement	<u>120,000</u>	<u>124,858</u>
Total	<u>\$505,000</u>	<u>\$400,280</u>

There was no interest capitalized as part of the cost of construction in progress in fiscal year 1998.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 4 - BONDS AND NOTES PAYABLE (CONTINUED)

Notes Payable

The University entered an agreement with the South Carolina Budget and Control Board and the University of South Carolina on June 19, 1998. Under the terms of the agreement, the University signed a short-term note borrowing \$2,100,000 from the University of South Carolina. The note carried an interest rate of 5.93 percent. Payment for the note, including \$14,183 interest, was made on August 18, 1998 from unrestricted current funds.

On November 24, 1997, the University acquired financing of \$1,200,000 through the Signet Leasing and Financial Corporation to retire an interim note payable to the State's installment purchase program. The proceeds of the interim note were used to upgrade the University's network infrastructure. The term of the unsecured Signet note is for 48 months with a 4.85 percent annual interest rate and installments due quarterly beginning February 24, 1998. Installments are paid from the retirement of indebtedness subgroup of the plant funds group. As of June 30, 1998, the entire \$1,200,000 had been expended, and the related payable is presented in the investment in plant subgroup of the plant funds group. Expenditures for the note payable during the fiscal year were \$165,635, consisting of \$137,867 for principal and \$27,868 for interest.

Obligations as of June 30, 1998 for the note payable are as follows:

<u>Year Ending June 30</u>	<u>Total</u>
1999	\$ 331,269
2000	331,269
2001	331,269
2002	<u>165,634</u>
Total Principal and Interest	1,159,441
Less: Interest	<u>97,308</u>
Total Note Payable Principal	<u><u>\$1,062,133</u></u>

NOTE 5 - LEASE OBLIGATIONS

During the current fiscal year, the University entered into a 48-month capital lease for grounds maintenance equipment in the total amount of \$92,182. The capital lease is payable in monthly installments from the retirement of indebtedness subgroup of the plant funds group. The interest rate is 6.99 percent. Capital lease expenditures for fiscal year 1998 were \$19,864, consisting of \$15,386 for principal and \$4,478 for interest.

The University is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 5 - LEASE OBLIGATIONS (CONTINUED)

Future commitments for the capital lease and operating leases having remaining noncancelable terms in excess of one year are as follows:

<u>Year Ending June 30</u>	<u>Capital Lease</u>	<u>Operating Leases</u>	
		<u>Real Property</u>	<u>Equipment</u>
1999	\$26,484	\$ 60	\$114,312
2000	26,484	60	3,852
2001	26,484	60	1,332
2002	6,620	60	222
2003	-	60	-
2004 through 2026	<u>-</u>	<u>1,290</u>	<u>-</u>
Total Minimum Lease Payments	86,072	<u>\$1,590</u>	<u>\$119,718</u>
Less: Interest	<u>9,276</u>		
Principal Outstanding	<u>\$76,796</u>		

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from fiscal year 1999 through fiscal year 2026. Certain operating leases provide for renewal options for such additional periods and rental value as the parties thereto agree. Operating leases are generally payable on a monthly basis.

The University has certain short-term operating leases for equipment that provide for monthly lease payments and are cancelable without notice. The University is responsible for maintenance of the equipment in most cases. In the normal course of business, operating leases are generally renewed or replaced by other leases. Total operating lease expenditures in 1998 were \$347,105. The University reports these costs in the applicable current funds functional expenditure category.

NOTE 6 - NONMANDATORY TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service (and facility operating costs) as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds. However, for the student and faculty housing revenue bonds and the stadium improvement revenue bonds issued by the University, a written request for the transfer of funds in excess of required minimum balances is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 6 - NONMANDATORY TRANSFERS (CONTINUED)

The University reports its general capital funding accounts in the unexpended plant funds subgroup and the unexpended balances thereof as unrestricted fund balance. In fiscal year 1998, the University transferred \$493,942 of funds in excess of required debt service payments from the retirement of indebtedness subgroup to the unrestricted current funds for operations. \$581,084 of funds not needed for capital projects was transferred from the unexpended plant funds subgroup to unrestricted current funds to aid in the revenue shortfall. \$243,500 of unrestricted current funds was transferred to the unexpended plant funds subgroup to finance specific capital projects. \$234,497 of unrestricted current funds was transferred to the retirement of indebtedness subgroup for principal and interest on notes payable and capital lease obligations. Unexpended balances of the specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup.

In addition, the University reports net transfers between current funds of \$17,072.

NOTE 7 - 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.

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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 7 - PENSION PLANS (CONTINUED)

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 \$1,796,066, \$1,659,036, and \$1,588,345, 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 \$35,683 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.

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 \$67,328, \$67,282, and \$61,492, 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 \$1,307 and accidental death insurance contributions of \$1,307 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' functional expenditure categories to which the related salaries are charged.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 7 - PENSION PLANS (CONTINUED)

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.

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 \$216,747 (excluding the surcharge) from the University as employer and \$172,249 from its employees as plan members. In addition, the University paid \$4,306 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 8 - 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 \$1,553,028 for the year ended June 30, 1998. As discussed in Note 7, the University paid \$523,326 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.

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 9 - 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 9 - DEFERRED COMPENSATION PLANS (CONTINUED)

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 10 - INVENTORIES

Inventories for internal use are valued at cost. Inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 1998:

<u>Category</u>	<u>Method</u>	
Books	First-in, first-out	\$244,047
Retail Store	First-in, first-out	142,627
Office Supplies	First-in, first-out	59,392
Custodial Supplies	First-in, first-out	134,940
Gasoline	First-in, first-out	3,138
Food	First-in, first-out	<u>17,723</u>
Total		<u>\$601,867</u>

NOTE 11 - 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, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 12 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES

The University has the following significant and/or unique accounts receivable in its various funds:

Unrestricted Current Funds

Accounts Receivable:

Student tuition and Fees	\$1,456,012
Auxiliary Enterprises Fees	<u>556,291</u>
	2,012,303
Less: Allowance for Doubtful Accounts	<u>549,953</u>

Student Accounts Receivable, Net \$1,462,350

Other Receivables

\$ 153,314

Loan Funds

Notes Receivable:

Perkins Loan Program	\$1,641,315
Less: Allowance for Doubtful Accounts	<u>409,243</u>
Perkins Loan Program, Net	1,232,072

Student Loan Fund	7,231
Less: Allowance for Doubtful Accounts	<u>916</u>
Student Loan Fund, Net	6,315

African-American Teacher Loan Program	535,277
Less: Allowance for Doubtful Accounts	<u>133,284</u>
African American Teacher Loan Program, Net	401,993

Education Improvement Act Loan Program	371,503
Less: Allowance for Doubtful Accounts	<u>92,504</u>
Education Improvement Act Loan Program, Net	<u>278,999</u>

Notes Receivable, Net \$1,919,379

Agency Funds

Accounts Receivable:

Due from South Carolina Department of Vocational Rehabilitation	\$ 2,094
Due from Students	<u>2,068</u>

Accounts Receivable \$ 4,162

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 12 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES (CONTINUED)

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established using set percentages based upon an aging schedule. At June 30, 1998, the allowances for student loans receivable in loan funds, student tuition and fees accounts receivable in unrestricted current funds, and auxiliary enterprises fees in the unrestricted current funds are valued at \$635,947, \$352,847, and \$193,124, respectively. Other receivables in the unrestricted current fund include \$139,489 due from the South Carolina State College Foundation for the Foundation's use of University facilities. The Education Improvement Act Loan receivables include \$152,363 on which no interest is charged. The allowance for losses related to these funds is \$37,938.

NOTE 13 - 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 which are expected to be completed in varying phases over the next several years at an estimated total cost of \$21,291,197. Of the total cost, \$8,436,978 is unexpended at June 30, 1998. Of the total expended through June 30, 1998, the University has capitalized substantially complete and in use projects costing \$50,320 in the applicable plant asset categories. Of the unexpended balance at June 30, 1998, the University had remaining commitment balances of \$2,356,785 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Major capital projects at June 30, 1998, which constitute construction in progress that are to be capitalized when completed are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
1890 Extension Facilities	\$ 4,558,877	\$ 4,548,877
Arts and Science Building	9,720,345	6,878,036
Camp Harry Daniels Construction	407,000	273,948
Felton Laboratory School Renovations	125,000	97,933
Felton Laboratory Art and Music Room Addition	550,000	42,085
Hodge Hall Renovations	1,654,975	154,581
Campus-Wide Steam Distribution	2,650,000	836,732
Belcher Hall Renovation	1,000,000	10,810
Camp Harry Daniels Renovation	600,000	6,200
New Living Center	25,000	5,017
Total	<u>\$21,291,197</u>	<u>\$12,854,219</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 13 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

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. Costs incurred to date on these projects amount to \$1,281,271 at June 30, 1998, and the estimated cost to complete is \$31,341.

The University anticipates funding these projects out of current resources, current and future bond issues, state capital improvement bond proceeds, private gifts, and student fees. In addition, the \$4,558,877 cost of the 1890 Extension facilities project is covered by an approved federal budget from 1890 Program funds for the entire cost. Construction expenditures are reimbursed as incurred up to the budgeted amount.

NOTE 14 - 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.

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

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$4,341,372	Deposits Held by State	
Investments	101,417	Treasurer	\$4,121,229
		Deposits with Other	
		Financial Institutions	185,143
		Loan Participation Deposit	35,000
		Investments Held by State	
		Treasurer	95,900
		Other Investments	5,517
	<hr/>		<hr/>
	\$4,442,789		\$4,442,789

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 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 carrying amounts, market values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits Held by State Treasurer (Continued)

As disclosed in Note 4, unexpended plant funds include \$1,366,685 restricted cash for the purpose of building and maintaining a reasonable reserve for contingencies and for improvements, expansions and renovations of the facilities.

Other Deposits

The University's other deposits of \$185,142 in unrestricted current funds at year-end were entirely covered by federal depository insurance or by collateral held by the University's custodial bank in the University's name. Loan funds include \$35,000 restricted cash for a loan participation deposit.

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 the 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, or by its trust department or agent, but not in the entity's name.)

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

	<u>Category of Risks</u>			<u>Bank Balance</u>	<u>Reported Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash deposits	<u>\$235,000</u>	<u>\$874,752</u>	<u>\$ -</u>	<u>\$1,109,752</u>	<u>\$220,142</u>

Investments Held by State Treasurer

The accounts classified as "Investments held by State Treasurer" in the financial statements comprise investments held for the University and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities.

Investments consist of Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer as Trustee in Perpetuity on which the State is required to pay the University 6 percent per year. Since there is no readily determinable fair value for these investments, they have been assigned a fair value equal to their historical cost value.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)

Other Investments

"Other investments" consist of investments in common stock, which are stated at fair value and include unrealized appreciation of \$3,888. Purchases and sales are accounted for on the acquisition date. Unrealized gains and losses on these investments have been recorded in the fund holding the investment. Earnings are recorded on an accrual basis.

The University's 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 a government 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 University or its agent in the University'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 University'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 University's name. A summary of investments at June 30, 1998, by category of credit risk follows:

	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Common Stock	<u>\$5,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,517</u>

The investment listed above was held throughout the fiscal year and the balance therein fluctuated minimally in excess of the fiscal year-end balance.

NOTE 15 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include South Carolina State College Educational Foundation, The S.T.A.T.E. Club, and the South Carolina State University Alumni Association. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

Following is a more detailed discussion of each of these entities and a summary of significant transactions between these organizations and South Carolina State University.

South Carolina State College Educational Foundation

The South Carolina State College Educational Foundation (Foundation) is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of the University. The Foundation's activities are governed by its Board of Directors.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 15 - RELATED PARTIES (CONTINUED)

South Carolina State College Educational Foundation (Continued)

The University recorded receipts of \$327,618 from the Foundation in restricted current funds for the fiscal year ending June 30, 1998. The Foundation transfers funds earmarked from private contributions to the University to support the University scholarship program. Unrestricted current fund obligations of \$10,033 were paid by the Foundation on behalf of the University for the athletics program for the current fiscal. The Foundation reimburses the University for any purchases made by the University for the Foundation. These funds are primarily recorded in the restricted current fund as private gifts and grants revenues.

The S.T.A.T.E. Club

The S.T.A.T.E. Club is a separately chartered entity organized to promote and support intercollegiate athletics at South Carolina State University. The S.T.A.T.E. Club's actions are governed by its Board of Directors. The Club had no transactions with the University for the fiscal year ended June 30, 1998, and did not require the time or services of any University employees.

South Carolina State University Alumni Association

The South Carolina State University Alumni Association is a separately chartered entity organized to develop and maintain the spirit of the University, disseminate knowledge; promote education and scholarship; and cement the bond of fellowship and loyalty to the University. The Association's actions are governed by its Officers of the Association. This entity had no transactions with the University for the fiscal year ending June 30, 1998, and did not require the time or services of any University employees.

In conjunction with its implementation of GASB Statement No.14 and each fiscal year, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

NOTE 16 - 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 trustee, and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 16 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED)

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.

The University had financial transactions with various State agencies during the fiscal year and participated with the University of South Carolina and Clemson University in the administration of certain federal grants. Additionally the University received grants from divisions of State government. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans' employee and employer contributions, insurance coverage, 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. See Note 2 regarding State Appropriations and state grants and contracts revenue.

NOTE 17 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including defamation, negligence, intentionally inflicted emotional distress, age and sex discrimination, breach of contract, and fraud. In some of these cases, the remedies sought or damages claimed are substantial. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these claims is remote, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

The University is a defendant in a lawsuit filed by a former employee for wrongful dismissal and sex discrimination. The suit asks for damages of \$118,000. Outside counsel has advised that at this stage in the proceedings he cannot give an opinion as to the probable outcome. The University believes the suit is without merit and is vigorously defending its position. Therefore, the University has not accrued a liability.

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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 17 - CONTINGENCIES AND LITIGATION (CONTINUED)

The University accounts for its cash balances on a fund by fund basis on a method which approximates a pooling of cash. However, fund cash balances have not been reconciled to bank cash balances on a fund by fund basis in some time. Bank and fund cash balances are reconciled monthly in total but not by individual fund. The effects of corrections to balances of cash, due to and from other University funds, and fund balances as a result of this type of reconciliation are unknown and indeterminable at this time.

NOTE 18 - RISK MANAGEMENT

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs 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:

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 18 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries.

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's rates are determined actuarially.

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

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation with limits of \$50,000 per occurrence.

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

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and limits, unreported claims, underinsurance, and co-insurance for coverages to a State or commercial insurer. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1998, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 1998, and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 and using past experience adjusted for current trends and other factors that would modify past experience.

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

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

NOTE 19 - DEFICIT FUND BALANCE

The fund balance of the unrestricted current fund has a deficit of \$3,210,382. The components of this deficit are as follows:

	Fund Balance <u>(Deficit)</u>
Unrestricted	\$ 1,566,089
Auxiliaries	<u>(4,776,471)</u>
Net Deficit	<u><u>\$(3,210,382)</u></u>

The deficit fund balance in auxiliary enterprises was attributable to the Athletic Department which had a deficit fund balance of \$6,635,430 at June 30, 1998.

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Effective July 1, 1997, the University adopted Governmental Accounting Standards Bard (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 that the equity position of each fund that sponsors the pool to be reported as assets in those funds.

Also, the University corrected the following errors in the application of accounting principles and other matters for which the beginning fund balances have been restated.

The University corrected the reporting of Educational Improvement Act (EIA) loans receivable. The University had previously recognized EIA revenue as State grants and contracts and expensed an equal amount for the loans advanced as scholarships in restricted current funds because the loans were not set up correctly in the Loan Management System (LMS). The University uses the LMS to determine the outstanding loans at fiscal year end. This correction did not affect the fund balance in restricted current funds but did increase the fund balance in the loan funds by \$232,673 which is the amount of the receivable less the related allowance for doubtful accounts.

The University corrected the reporting of the African American Teacher Loan Program receivable by recording an allowance for doubtful accounts. The University had not previously determined nor recorded an allowance for this receivable. The correction decreased fund balance in the loan funds by \$90,729.

The University corrected the reporting of funds received for scholarships. The University previously classified these funds as an endowment (Willis York) but the restrictions placed on the corpus were not clear. The University received clarification of the restrictions and determined that the donations were to be totally expended for scholarships. The correction decreased endowment fund balance and increased the fund balance in restricted current funds by \$1,259.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 1998

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

The University made corrections for land and a building donated in fiscal year 1997 that had not been recorded because the value of the property had not been determined at the time. The correction increased the net investment in plant account in the investment in plant funds by \$1,626,650.

Following is a summary of the effects of the changes to beginning fund balance as of July 1, 1997 resulting from adoption of Statement No. 31 and for the correction of errors described above.

	<u>Fund Balances - June 30, 1997</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds	\$(1,326,265)	\$ 117	\$(1,326,148)
Restricted Current Funds	1,068,940	6,727	1,075,667
Loan Funds	1,852,795	142,031	1,994,826
Endowment Funds	651,061	(1,259)	649,802
Unexpended Plant Funds	13,934,314	241	13,934,555
Retirement of Indebtedness Funds	203,691	203	203,894
Investment in Plant Funds	83,411,915	1,626,650	85,038,565