

**SOUTH CAROLINA STATE UNIVERSITY**

**ORANGEBURG, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 1999**

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## INDEPENDENT AUDITOR'S REPORT

October 29, 1999

The Honorable James H. Hodges, 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, 1999, 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.

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 maintain adequate records of its equipment for the fiscal year, stated in the accompanying financial statements at \$22,431,380 as of June 30, 1999. Because evidence supporting the cost of equipment was not available and the University's records do not permit the application of other auditing procedures to equipment, we were unable to satisfy ourselves as to the cost of equipment.

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 James H. Hodges, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
October 29, 1999

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the cost of the University's equipment, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 1999, 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.

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 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.

As discussed in Note 18, certain errors in the application of accounting principles regarding library book inventories were discovered by management of the University during the current year. The changes have been accounted for as corrections of errors and the net investment in plant balance has been restated.

The year 2000 issue disclosures presented as Required Supplementary Information in this report is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established, and the success of remediation efforts will not be fully determinable until the year 2000 and after and because insufficient evidence exists to support the disclosures. In addition, we do not provide assurance that South Carolina State University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

Thomas L. Wagner, Jr. CPA  
State Auditor

**BASIC FINANCIAL STATEMENTS**

**SOUTH CAROLINA STATE UNIVERSITY**

Balance Sheet  
June 30, 1999

ASSETS

**CURRENT FUNDS**

Unrestricted:

Cash and Cash Equivalents (Note 14)	\$ 243,758
Accounts Receivable, Net (Note 12)	1,530,129
Inventories (Note 11)	576,148
Interest/Endowment Income Receivable	1,518
Prepaid Items	29,704
Other Receivables (Note 12)	91,266
Due from Restricted Current Funds (Note 21)	<u>2,783,018</u>
<b>Total Unrestricted</b>	<u><b>5,255,541</b></u>

Restricted:

Interest/Endowment Income Receivable	7,389
Grants Receivable - Federal	3,456,864
Grants Receivable - State	371,692
Grants Receivable - Private	68,557
<b>Total Restricted</b>	<u><b>3,904,502</b></u>
<b>Total Current Funds</b>	<u><b>\$9,160,043</b></u>

**LOAN FUNDS**

Cash and Cash Equivalents (Note 14)	\$ 247,621
Interest Receivable	1,817
Accounts Receivable	1,317
Notes Receivable (Note 12):	
Perkins Loan Program	924,878
Student Loan Fund	11,508
African American Teacher Loan Program	586,980
Education Improvement Act Loan Program	<u>364,071</u>
<b>Total Loan Funds</b>	<u><b>\$2,138,192</b></u>

LIABILITIES AND FUND BALANCES

**CURRENT FUNDS**

Unrestricted:

Accounts Payable	\$1,381,435
Accrued Payroll and Related Liabilities	158,426
Deferred Revenues	908,139
Compensated Absences and Related Liabilities	1,986,772
Student Deposits	92,386
Fund Balance	<u>728,383</u>
<b>Total Unrestricted</b>	<u><b>5,255,541</b></u>

Restricted:

Accounts Payable	169,253
Due to Unrestricted Current Funds (Note 21)	2,783,018
Fund Balances:	
Scholarships	893,761
Other Purposes	<u>58,470</u>
<b>Total Restricted</b>	<u><b>3,904,502</b></u>
<b>Total Current Funds</b>	<u><b>\$9,160,043</b></u>

**LOAN FUNDS**

Fund Balances:

Perkins Loan Fund	\$1,069,718
Donor Restricted	1,068,474
<b>Total Loan Funds</b>	<u><b>\$2,138,192</b></u>

**SOUTH CAROLINA STATE UNIVERSITY**  
Balance Sheet  
June 30, 1999

<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
<b>ENDOWMENT AND SIMILAR FUNDS</b>			
Cash and Cash Equivalents (Note 14)	\$ 579,143	Fund Balances:	
Interest Receivable	1,162	Endowment - Restricted	\$ 437,471
Investments (Note 14)	<u>102,360</u>	Quasi-Endowment - Unrestricted	<u>245,194</u>
<b>Total Endowment and Similar Funds</b>	<b><u>\$ 682,665</u></b>	<b>Total Endowment and Similar Funds</b>	<b><u>\$ 682,665</u></b>
<b>PLANT FUNDS</b>			
Unexpended:		Unexpended:	
Cash and Cash Equivalents (Note 14)	\$ 2,861,193	Accounts Payable	\$ 34,363
Interest Receivable	13,800	Retainages Payable	552,274
Capital Improvement Bond Proceeds		Fund Balances:	
Receivable (Note 3)	2,574,964	Restricted	3,811,958
Grants Receivable - Federal	<u>389,940</u>	Unrestricted, Designated	<u>1,441,302</u>
<b>Total Unexpended</b>	<b><u>5,839,897</u></b>	<b>Total Unexpended</b>	<b><u>5,839,897</u></b>
Retirement of Indebtedness:		Retirement of Indebtedness:	
Cash and Cash Equivalents (Note 14)	436,873	Accrued Bond Interest Payable	79,474
Interest Receivable	<u>9,013</u>	Fund Balances - Restricted	<u>366,412</u>
<b>Total Retirement of Indebtedness</b>	<b><u>445,886</u></b>	<b>Total Retirement of Indebtedness</b>	<b><u>445,886</u></b>
Investment in Plant:		Investment in Plant:	
Land	1,628,558	Note Payable (Note 5)	776,410
Buildings and Improvements	69,221,643	Capital Lease Obligations (Note 6)	54,991
Equipment	22,431,380	Bonds Payable (Note 4)	6,335,000
Library Books and Materials	4,380,565	Net Investment in Plant	97,621,445
Construction in Progress (Note 13)	<u>7,125,700</u>		
<b>Total Investment in Plant</b>	<b><u>104,787,846</u></b>	<b>Total Investment in Plant</b>	<b><u>104,787,846</u></b>
<b>Total Plant Funds</b>	<b><u>\$111,073,629</u></b>	<b>Total Plant Funds</b>	<b><u>\$111,073,629</u></b>
<b>AGENCY FUNDS</b>			
Cash and Cash Equivalents (Note 14)	\$ 583,727	Deposits Held for Others	\$ 582,588
		Accounts Payable	<u>1,139</u>
<b>Total Agency Funds</b>	<b><u>\$ 583,727</u></b>	<b>Total Agency Funds</b>	<b><u>\$ 583,727</u></b>

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, 1999

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			TOTAL (MEMORANDUM ONLY)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	LOAN <u>FUNDS</u>	ENDOWMENT AND SIMILAR <u>FUNDS</u>	<u>UNEXPENDED</u>	RETIREMENT	INVESTMENT	
						OF <u>INDEBTEDNESS</u>	<u>IN PLANT</u>	
<b>Revenues and Other Additions:</b>								
Unrestricted Current Fund Revenues	\$53,827,530	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$53,827,530
State Appropriations (Note 2)	-	1,210,790	257,000	-	-	-	-	1,467,790
Federal Grants and Contracts-Restricted	-	16,440,455	-	-	1,152,403	28,472	-	17,621,330
State Grants and Contracts-Restricted	-	803,513	72,968	-	-	-	-	876,481
Private Gifts, Grants and Contracts-Restricted	-	701,906	-	-	-	-	-	701,906
Interest Income - Restricted	-	166	9,986	2,758	93,601	75,099	-	181,610
Endowment Income - Restricted	-	38,987	-	-	-	-	-	38,987
Interest and Fees on Student Loans	-	-	57,709	-	-	-	-	57,709
Expended for Plant Facilities (Including \$2,405,248 Charged to Current Funds Expenditures)	-	-	-	-	-	-	6,212,319	6,212,319
Retirement of Indebtedness	-	-	-	-	-	-	627,529	627,529
Student Tuition and Fees	-	-	-	-	-	699,429	-	699,429
Other Additions	-	2,667	-	9,861	-	176	-	12,704
<b>Total Revenues and Other Additions</b>	<b>53,827,530</b>	<b>19,198,484</b>	<b>397,663</b>	<b>12,619</b>	<b>1,246,004</b>	<b>803,176</b>	<b>6,839,848</b>	<b>82,325,324</b>
<b>Expenditures and Other Deductions:</b>								
Educational and General Expenditures	37,375,952	18,605,277	-	-	-	-	-	55,981,229
Auxiliary Enterprises Expenditures	11,933,697	-	-	-	-	-	-	11,933,697
Indirect Cost Recoveries Remitted to State	146,407	-	-	-	-	-	-	146,407
Indirect Costs Recovered	-	446,832	-	-	-	-	-	446,832
Loan Cancellations and Write-Offs	-	-	299,551	-	-	-	-	299,551
Provision for Uncollectible Loans	-	-	74,805	-	-	-	-	74,805
Administrative and Collection Costs	-	-	32,921	-	-	-	-	32,921
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$511)	-	-	-	-	3,807,582	-	-	3,807,582
Retirement of Indebtedness	-	-	-	-	-	627,529	-	627,529
Interest on Indebtedness	-	-	-	-	-	429,220	-	429,220
Disposals of Plant Facilities	-	-	-	-	-	-	1,481,384	1,481,384
<b>Total Expenditures and Other Deductions</b>	<b>49,456,056</b>	<b>19,052,109</b>	<b>407,277</b>	<b>-</b>	<b>3,807,582</b>	<b>1,056,749</b>	<b>1,481,384</b>	<b>75,261,157</b>

**SOUTH CAROLINA STATE UNIVERSITY**  
Statement of Changes in Fund Balances  
For the Year Ended June 30, 1999

	<u>CURRENT FUNDS</u>		LOAN AND SIMILAR FUNDS	ENDOWMENT AND SIMILAR FUNDS	<u>PLANT FUNDS</u>			TOTAL (MEMORANDUM ONLY)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>			<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	
<b>Transfers Among Funds - Additions/(Deductions):</b>								
Mandatory from Auxiliary Enterprises Funds for Principal and Interest	(637,738)	-	-	-	-	637,738	-	-
Nonmandatory: (Note 7)								
Transfers for Operations	734,580	-	-	-	-	(734,580)	-	-
Transfer from Unrestricted Current Funds for:								
Capital Projects	(175,000)	-	-	-	175,000	-	-	-
Debt Service	(357,753)	-	-	-	-	357,753	-	-
Net Transfers Between Current Funds	<u>3,202</u>	<u>(3,202)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Transfers</b>	<u>(432,709)</u>	<u>(3,202)</u>	<u>-</u>	<u>-</u>	<u>175,000</u>	<u>260,911</u>	<u>-</u>	<u>-</u>
<b>Net Increases (Decreases) for the Year</b>	3,938,765	143,173	(9,614)	12,619	(2,386,578)	7,338	5,358,464	7,064,167
<b>Fund Balances (Deficit), Beginning of Year, as Previously Reported or as Restated (Note 18)</b>	<u>(3,210,382)</u>	<u>809,058</u>	<u>2,147,806</u>	<u>670,046</u>	<u>7,639,838</u>	<u>359,074</u>	<u>92,262,981</u>	<u>100,678,421</u>
<b>Fund Balances, End of Year</b>	<u>\$ 728,383</u>	<u>\$952,231</u>	<u>\$2,138,192</u>	<u>\$682,665</u>	<u>\$ 5,253,260</u>	<u>\$ 366,412</u>	<u>\$97,621,445</u>	<u>\$107,742,588</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, 1999

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
<b>Revenues:</b>			
Student Tuition and Fees	\$13,828,475	\$ -	\$13,828,475
State Appropriations (Note 2)	27,059,025	1,417,790	28,476,815
Federal Grants and Contracts	447,907	15,918,433	16,366,340
State Grants and Contracts	-	537,192	537,192
Private Gifts, Grants and Contracts	242,435	695,974	938,409
Endowment Income	11,554	33,055	44,609
Interest Income - Restricted	-	166	166
Sales and Services of Educational Activities	456,421	-	456,421
Sales and Services of Auxiliary Enterprises	11,228,667	-	11,228,667
Interest Income - Auxiliary Enterprises	9,624	-	9,624
Other Sources	<u>543,422</u>	<u>2,667</u>	<u>546,089</u>
<b>Total Current Revenues</b>	<b><u>53,827,530</u></b>	<b><u>18,605,277</u></b>	<b><u>72,432,807</u></b>
<b>Expenditures and Mandatory Transfers:</b>			
Educational and General:			
Instruction	17,271,322	1,857,556	19,128,878
Research	357,942	2,146,023	2,503,965
Public Service	220,603	3,090,127	3,310,730
Academic Support	6,108,390	1,325,948	7,434,338
Student Services	3,066,791	451,597	3,518,388
Institutional Support	5,548,825	721,269	6,270,094
Operation and Maintenance of Plant	4,085,115	-	4,085,115
Scholarships and Fellowships	<u>716,964</u>	<u>9,012,757</u>	<u>9,729,721</u>
<b>Educational and General Expenditures</b>	<b><u>37,375,952</u></b>	<b><u>18,605,277</u></b>	<b><u>55,981,229</u></b>
Auxiliary Enterprises:			
Expenditures	11,933,697	-	11,933,697
Mandatory Transfers for Principal and Interest	<u>637,738</u>	<u>-</u>	<u>637,738</u>
<b>Total Auxiliary Enterprises</b>	<b><u>12,571,435</u></b>	<b><u>-</u></b>	<b><u>12,571,435</u></b>
<b>Total Expenditures and Mandatory Transfers</b>	<b><u>49,947,387</u></b>	<b><u>18,605,277</u></b>	<b><u>68,552,664</u></b>

**SOUTH CAROLINA STATE UNIVERSITY**  
Statement of Current Funds Revenues, Expenditures, and Other Changes  
For the Year Ended June 30, 1999

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
<b>Other Transfers and Additions/(Deductions):</b>			
Nonmandatory Transfers In	734,580	-	734,580
Nonmandatory Transfers Out	(532,753)	-	(532,753)
Net Transfers Between Current Funds	3,202	(3,202)	-
Excess of Restricted Receipts Over Transfers to Revenues	-	146,375	146,375
Indirect Cost Recoveries Remitted to the State General Fund	(146,407)	-	(146,407)
	<hr/>	<hr/>	<hr/>
<b>Total Other Transfers and Additions/ (Deductions)</b>	<u>58,622</u>	<u>143,173</u>	<u>201,795</u>
<b>Net Increases (Decreases) in Fund Balances</b>	<u>\$3,938,765</u>	<u>\$143,173</u>	<u>\$4,081,938</u>

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

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Governmental Accounting Standards Board (GASB) is the recognized standard - setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The accounting policies of South Carolina State University conform to 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* as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, and as modified by all applicable GASB pronouncements. Those FASB pronouncements 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.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Reporting Entity (Continued)***

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 the South Carolina State University.

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

The accompanying financial statements present the financial position, changes in fund balances, 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

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Accounting (Continued)***

and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received and available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

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

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, renovations, and purchases and normal replacement of movable equipment and library materials; (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 realized 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

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting - University Funds (Continued)***

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 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.

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. 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 \$6,365,560 at June 30, 1999. See Note 20 for additional information.

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.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting - University Funds (Continued)***

The *Endowment and Similar Funds* group includes endowment funds, term 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. 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. The University currently has no term endowments.

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, 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 *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 and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**SOUTH CAROLINA STATE UNIVERSITY**  
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June 30, 1999

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Indirect Cost Recoveries***

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored 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. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

***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 faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes overtime leave, compensatory holiday leave and 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, 1999. 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 from external parties. Plant assets acquired prior to July 1, 1990, are stated at historical cost when determinable or at estimated historical cost. Plant assets donated to the University by State agencies are stated at the cost of the agency which originally acquired the asset. 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

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Investment in Plant (Continued)***

the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from current funds and the debt service expenditures are reported in the retirement of indebtedness plant funds subgroup as the installments are paid.

Land improvements are included as part of land and 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.

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 and 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 (for those donated by external parties), where applicable, is removed from the investment in plant subgroup. When plant assets donated to the University by other State agencies are sold, retired, or otherwise disposed of, the cost at which the agency originally acquired the asset is removed from the investment in plant subgroup. The values of library materials are removed annually (See Note 18). The University uses an independent book service index to value library material deletions. 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 1999, the University had no debt associated with capital projects and therefore no capitalized interest.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Deferred Revenues***

The University reports deferred revenues for unearned student revenues which consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

***Student Deposits***

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, 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.

***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, Felton Laboratory School, planetarium, and various similar programs.

***Prepaid Items***

Expenditures for insurance, postage, 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 and postage.

***Cash and Cash Equivalents***

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent 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 internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Cash and Cash Equivalents (Continued)***

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 internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. The University reports its deposits in the special deposits accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

***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.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
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**NOTE 2 - STATE APPROPRIATIONS (CONTINUED)**

In addition to state appropriations revenue, pursuant to Proviso 1A.33., 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 grants and contracts revenue in the restricted current funds group and the loan funds group.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5J of Part IA of the 1998-99 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, 1999:

Original Appropriation	\$21,392,812
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 63C.12.)	528,717
Capital Reserve Fund Appropriations (June 1998 Joint Resolution R537, H4702):	
For Business School Accreditation	500,000
For Repayment of loan from the University of South Carolina	2,100,000
Appropriation Allocations from the State Commission on Higher Education:	
From Capital Reserve Fund Appropriations for Institutional Funding (June 1998 Joint Resolution)	1,239,381
For Additional Performance Funding (Proviso 5A.26.)	463,310
For African-American Teacher Loan Program (Proviso 5A.18.)	280,000
For Access and Equity Desegregation Funding (Proviso 5A.7.)	105,319
For Academic Endowment Matching Funds	8,486
Higher Education Partnership Assistance (from EIA funding)	1,020
From the Children's Education Endowment Fund:	
For Palmetto Fellows Scholarships	17,500
For Need-Based Grants	544,758
For LIFE Scholarships (1998 Act 418)	604,500
For STAR Scholarships (from EIA Funding per Section 59-39-190 of the S.C. Code of Laws)	7,012
Appropriation Transfer from the State Budget and Control Board	
For Deloitte and Touche Auditing Services	30,000
Appropriation Transfer from the State Department of Education for the Felton Laboratory School	204,000
Supplemental Appropriations of 1998 Surplus State General Fund Revenues (Part III of the 2000 Appropriation Act) for the 1890 Leadership Institute Match	<u>500,000</u>
<b>Total State Appropriations Revenue - Accrual Basis</b>	<b>28,526,815</b>

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 2 - STATE APPROPRIATIONS (CONTINUED)**

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

Reported in Restricted Current Funds	1,210,790
Reported in Loan Funds	<u>257,000</u>

**Funding Reported in Unrestricted Current Funds** **\$27,059,025**

Appropriations of \$23,000 allocated from the State Commission on Higher Education for the African-American Teacher Loan Program were allocated for administrative purposes. These funds are reported as State Grants and Contracts revenue in Restricted Current Funds. \$3,837 of funds allocated from the State Commission on Higher Education (CHE) for Additional Performance Funding were further allocated by CHE for the "Improving Students Performance on Standardized Tests" program. These funds are reported as State Grants and Contracts revenue in Restricted Current funds. \$9,163 of funds allocated from CHE from Capital Reserve Fund Appropriations for Institutional Funding were also further allocated by CHE for the "Improving Students Performance on Standardized Tests" program. These funds are reported as State Grants and Contracts revenue in Restricted Current Funds. Pursuant to Part III of the 1999-2000 Appropriation Act, the University carried forward \$500,000 to fiscal year 2000. This amount consists of Supplemental Appropriations of 1998 surplus State General Fund revenues to be used for the 1890 Leadership Institute Match. These funds are reported in Unrestricted Current funds.

**NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS**

In prior fiscal 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 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, 1999, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1999</u>	<u>Balance Authorized June 30, 1999</u>
638 of 1988	\$ 642,500	\$ 634,580	\$ -	\$ 7,920
522 of 1992	6,000,000	5,393,999	606,001	-
111 of 1997	<u>5,600,000</u>	<u>477,534</u>	<u>2,555,422</u>	<u>2,567,044</u>
<b>Total</b>	<b><u>\$12,242,500</u></b>	<b><u>\$6,506,113</u></b>	<b><u>\$3,161,423</u></b>	<b><u>\$2,574,964</u></b>

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (CONTINUED)**

Pursuant to Act A#28 of 1999 signed by the Governor on June 1, 1999, and effective on July 1, 1999, \$10,000,000 was authorized for the renovation of the Hodge Hall Science Building and \$7,500,000 was authorized for phase one of deferred maintenance. These funds will be available to the University in fiscal year 2000.

**NOTE 4 - BONDS PAYABLE**

At June 30, 1999, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>
Student and Faculty Housing Revenue Bonds Series 1991A	4.5%-6.7%	6/1/2012	\$3,915,000
Stadium Improvement Revenue Bonds Series 1993A	3.0%-5.5%	1/1/2013	<u>2,420,000</u>
<b>Total - Included in Investment in Plant Funds</b>			<b><u>\$6,335,000</u></b>

The University receives interest subsidies from the U.S. Department of Education designated for 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 the 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.

In lieu of cash and investments, on deposit in debt reserve funds for the purpose of repaying the student and faculty housing revenue bonds and stadium improvement revenue bonds, the University has purchased a surety bond for each of the revenue bond issues which will satisfy the debt service 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.

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. The University fell \$731,383 short of meeting the student and faculty housing revenue bonds net revenue requirement.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 4 - BONDS PAYABLE (CONTINUED)**

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. These reserve balances are to be funded each fiscal year with the lesser of \$200,000 or 50 percent of the net fund balance. At June 30, 1999 the reserve balances of the stadium improvement fund and the housing improvement fund were \$477,465 and \$967,226, respectively. 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, at 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, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	260,000	194,192	454,192
2005 through 2012	<u>2,755,000</u>	<u>873,881</u>	<u>3,628,881</u>
<b>Total Obligations</b>	<b><u>\$3,915,000</u></b>	<b><u>\$1,979,245</u></b>	<b><u>\$5,894,245</u></b>

**SOUTH CAROLINA STATE UNIVERSITY**  
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June 30, 1999

**NOTE 4 - BONDS PAYABLE (CONTINUED)**

Amounts as of June 30, 1999, 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>
2000	\$ 125,000	\$ 117,948	\$ 242,948
2001	135,000	112,947	247,947
2002	140,000	107,413	247,413
2003	140,000	101,533	241,533
2004	155,000	95,512	250,512
2005 through 2013	<u>1,725,000</u>	<u>487,447</u>	<u>2,212,447</u>
<b>Total Obligations</b>	<b><u>\$2,420,000</u></b>	<b><u>\$1,022,800</u></b>	<b><u>\$3,442,800</u></b>

Mandatory transfers from auxiliary enterprises revenue for debt service on student and faculty housing revenue and stadium improvement revenue 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 student faculty 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, 1999, of bonds outstanding \$420,000 are considered defeased.

The University reported principal retirements and interest expenditures related to the bonds as follows for the year ended June 30, 1999.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
Student and Faculty Housing Revenue	\$195,000	\$255,839
Stadium Improvement Revenue	<u>125,000</u>	<u>120,322</u>
<b>Total</b>	<b><u>\$320,000</u></b>	<b><u>\$376,161</u></b>

There was no interest capitalized as part of the cost of construction in progress in fiscal year 1999.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
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**NOTE 5 - NOTES PAYABLE**

The University entered into 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. See Note 2 regarding Capital Reserve Funds authorized to the University for repayment of this loan.

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. Under the State Treasurer's Office's Master Lease Program, the First Union National Bank purchased the interim note in July 1998. The term of the secured note is for 48 months with a 4.85 percent annual interest rate and installments due quarterly beginning February 24, 1998. The note matures on November 24, 2001. Installments are paid from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the note.

The note is payable in quarterly installments plus interest. Amounts including interest required to complete payment of the note as of June 30, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$299,580	\$31,688	\$331,268
2001	314,108	17,160	331,268
2002	<u>162,722</u>	<u>2,913</u>	<u>165,635</u>
Total Obligations	<u>\$776,410</u>	<u>\$51,761</u>	<u>\$828,171</u>

Payments for fiscal year 1999 were \$331,268 of which \$45,545 represented interest.

**NOTE 6 - LEASE OBLIGATIONS**

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

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 6 - LEASE OBLIGATIONS (CONTINUED)**

Future commitments for capital and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1999, were as follows:

<u>Year Ending June 30</u>	<u>Capital Lease</u>	<u>Operating Leases</u>	
		<u>Real Property</u>	<u>Equipment</u>
2000	\$26,484	\$4,860	\$2,592
2001	26,484	60	1,332
2002	6,620	60	1,332
2003	-	60	222
2004	-	60	-
2005 through 2026	<u>-</u>	<u>1,230</u>	<u>-</u>
Total Minimum Lease Payments	59,588	<u>\$6,330</u>	<u>\$5,478</u>
Less: Interest	<u>4,597</u>		
Principal Outstanding	<u>\$54,991</u>		

***Capital Lease***

During fiscal year 1998, the University entered into a 48-month \$92,182 capital lease for grounds maintenance equipment. The capital lease is payable in monthly installments from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the capital lease and expires on September 25, 2001. Capital lease expenditures for fiscal year 1999 were \$26,484, of which \$4,678 represented interest. The interest rate for the capital lease is 6.99 percent.

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

***Operating Leases***

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2000 through 2026. Certain operating leases provide for renewal options for a period of one year at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

Total operating lease expenditures in 1999 were \$25,000 for real property, \$116,597 for computer equipment, and \$296,656 for other equipment. The University reports these costs in the applicable unrestricted current funds functional expenditure categories.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 7 - NONMANDATORY TRANSFERS**

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service 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 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. The University reports its general capital funding account in the unexpended plant funds subgroup and the unexpended balance thereof as unrestricted, designated fund balance. Unexpended balances of the specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup. During fiscal year 1999, the University did not transfer funds to or from the general capital funding account in the unexpended plant funds subgroup.

In fiscal year 1999, the University transferred \$734,580 of funds in excess of required debt service payments from the retirement of indebtedness subgroup to the unrestricted current funds for operations. In the current fiscal year, \$175,000 of unrestricted current funds was transferred to the unexpended plant funds subgroup to finance specific capital projects and \$357,753 was transferred from unrestricted current funds to the retirement of indebtedness plant funds subgroup to fund notes payable and capital lease debt service payments.

**NOTE 8 - 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.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 8 - PENSION PLANS (CONTINUED)**

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 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, 1999, 1998, and 1997, were \$1,787,895, \$1,796,066, and \$1,659,036, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$35,521 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.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 8 - PENSION PLANS (CONTINUED)**

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1999, 1998, and 1997, were \$67,720, \$67,328, and \$67,282, respectively, and equalled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$1,315 and accidental death insurance contributions of \$1,315 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each 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.

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**NOTE 8 - PENSION PLANS (CONTINUED)**

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.03 percent from the employer in fiscal year 1999.

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 \$220,955 (excluding the surcharge) from the University as employer and \$175,593 from its employees as plan members. In addition, the University paid \$4,390 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.

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.

**NOTE 9 - 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 19,170 State retirees meet these eligibility requirements.

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**NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)**

The University recorded employer contributions expenditures within the applicable current funds' functional expenditure categories for these insurance benefits for active employees in the amount of \$1,655,729 for the year ended June 30, 1999. As discussed in Note 8, the University paid \$553,475 applicable to the 2.03 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 10 - 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 administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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 had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

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**NOTE 11 - 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, 1999:

<u>Category</u>	<u>Method</u>	
Books	First-in, first-out	\$316,913
Retail Store	First-in, first-out	146,576
Office Supplies	First-in, first-out	46,011
Custodial Supplies	First-in, first-out	48,940
Food	First-in, first-out	15,435
Gasoline	First-in, first-out	<u>2,273</u>
		<u>\$576,148</u>

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

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

Unrestricted Current Funds:

Accounts Receivable:

Student Tuition and Fees	\$1,444,087
Auxiliary Enterprises Fees	<u>600,364</u>
	2,044,451
Less: Allowance for Doubtful Accounts	<u>514,322</u>

**Student Accounts Receivable, Net** 1,530,129

**Other Receivables**

91,266

Loan Funds:

Notes Receivable:

Perkins Loan Program	\$1,360,998
Less: Allowance for Doubtful Accounts	<u>436,120</u>
Perkins Loan Program, Net	<u>924,878</u>

Student Loan Fund 11,930

Less: Allowance for Doubtful Accounts 422

Student Loan Fund, Net 11,508

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 12 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES (CONTINUED)**

Loan Funds - Notes Receivable (Continued)

African American Teacher Loan Program	765,031
Less: Allowance for Doubtful Accounts	<u>178,051</u>
African American Teacher Loan Program, Net	<u><u>586,980</u></u>
Education Improvement Act Loan Program	460,230
Less: Allowance for Doubtful Accounts	<u>96,159</u>
Education Improvement Act Loan Program, Net	<u><u>364,071</u></u>

Total net notes receivable in loan funds was \$1,887,437 at June 30, 1999.

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1999, the allowances for student loan notes receivable, student tuition and fees, and auxiliary enterprises are valued at \$710,752, \$328,487, and \$185,835, respectively. Other receivables in unrestricted current funds include \$76,426 due from the South Carolina State University Foundation for use of University facilities and postage charges due. The Education Improvement Act (EIA) student loan notes receivables include principal of \$122,192 on which no interest is charged and for which an allowance for losses of \$29,937 was established.

**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 \$21,578,200. Of the total cost, \$5,799,394 is unexpended at June 30, 1999. Of the total expended through June 30, 1999, the University has capitalized substantially complete and in use projects costing \$9,081,899 in the applicable plant asset categories. Of the unexpended balance at June 30, 1999, the University had remaining commitment balances of \$5,212,757 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Major capital projects at June 30, 1999, which constitute construction in progress that are to be capitalized when completed are listed below.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 13 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)**

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
1890 Extension Facilities	\$ 4,558,877	\$4,550,092
Felton Laboratory Art and Music Room Addition	912,067	299,894
Hodge Hall Renovations	1,994,975	996,420
Campus-Wide Steam Distribution	2,650,000	1,153,348
Belcher Hall Renovation	1,000,000	100,817
Camp Harry Daniels Renovation	600,000	14,900
New Living Center	25,000	10,229
Resident Safety	<u>50,000</u>	<u>-</u>
<b>Total</b>	<b><u>\$11,790,919</u></b>	<b><u>\$7,125,700</u></b>

At June 30, 1999, 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 \$511 at June 30, 1999, and the estimated cost to complete is \$24,600.

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

**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.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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	\$4,952,315	Deposits Held by State	\$4,866,573
Investments	102,360	Treasurer	
		Other Deposits - Financial	
		Institution	50,742
		Other Deposits - Loan	
		Participation Deposit	35,000
		Investments Held by State	
		Treasurer	95,900
		Other Investments	6,460
	<hr/>		<hr/>
	<u>\$5,054,675</u>		<u>\$5,054,675</u>

***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, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

As disclosed in Note 4, unexpended plant funds include \$1,444,691 restricted cash for the purpose of building and maintaining reasonable reserves for contingencies and for improvements, expansions and renovations of the facilities.

***Other Deposits***

Of the University's other deposits, \$50,742 is reported in unrestricted current funds at year-end in an account which is covered by \$200,000 in federal depository insurance or by collateral held by the University's custodial bank in the University's name. However, the year-end balance exceeded the insurance. Loan funds includes \$35,000 restricted cash for a loan participation deposit.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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

- (1) Insured or collateralized with securities held by the entity or by it's 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, 1999, bank balances by risk category follows:

	Category			Bank Balance	Reported Amount
	1	2	3		
Cash Deposits	<u>\$235,000</u>	<u>\$1,544,318</u>	<u>\$ -</u>	<u>\$1,779,318</u>	<u>\$85,742</u>

***Investments Held by State Treasurer***

The accounts classified as "Investments Held by State Treasurer" in the financial statements comprise investments held for the State agency 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 Series 1894 Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer as Trustee until they mature in 2035 on which the State is required to pay the University 6 percent per year. Because there is no readily determinable fair value of these investments, they have been assigned a fair value equal to their historical cost value.

***Other Investments***

"Other investments" consist of investments in common stock, which are stated at fair value and include unrealized appreciation of \$4,831. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on these investments have been recorded in the fund holding the investment. Earnings are recorded on an accrual basis.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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 these investments at June 30, 1999, by category of credit risk follows:

	Category			Fair
	1	2	3	Value
Common Stock	<u>\$6,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,640</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. Financial statements are not available for these entities. They include South Carolina State Educational Foundation (the 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.

In conjunction with its implementation of GASB Statement No.14, 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.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 15 - RELATED PARTIES (CONTINUED)**

Various transactions occur between the University and these parties. A summary of these transactions and balances as of and for the year ended June 30, 1999, follows:

**South Carolina State College Educational Foundation**

The 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. The University recorded private grant receipts of \$526,412 from the Foundation in restricted current funds for the fiscal year ending June 30, 1999. These funds were awarded as scholarships by the University. Unrestricted current fund obligations of \$37,920 were paid by the Foundation on behalf of the University for the athletics program for the current fiscal year. 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. See Note 12 regarding the \$76,426 receivable due from the Foundation and reported in unrestricted current funds.

**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, 1999, 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 information; promote education and scholarship; and cement the bonds of fellowship and loyalty to the University. The Association's actions are governed by the Officers of the Association. This entity had no transactions with the University for the fiscal year ending June 30, 1999, and did not require the time or services of any University employees.

**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; check preparation, banking, bond trustee, investment and Master Lease Program services from the State Treasurer; and legal services from the Attorney General.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**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, grant 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. The University received \$237,941 in funds from the South Carolina Department of Education for the Bamberg, Calhoun, Orangeburg Math and Science HUB program which is reported as State grants and contracts revenue in the restricted current funds group. Significant payments were made to divisions of the State Budget and Control Board for pension 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 1999 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. As authorized by section IA.33. of the 1998-1999 Appropriation Act, the University received \$72,968 from the South Carolina Center for Teacher Recruitment for the Education Improvement Act Forgivable Loan Program. These funds are reported as State grants and contracts revenue in loan funds.

**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 contractual issues, personal injury, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these cases is reasonably possible. However, an estimated liability cannot be determined at this time. Therefore, an estimated liability has not been recorded.

The various federal programs administered by the University for fiscal year 1999 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. Furthermore, there is no information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, an estimated loss has not been recorded.

**SOUTH CAROLINA STATE UNIVERSITY**  
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**NOTE 18 - PRIOR PERIOD ADJUSTMENTS**

The University corrected the following error in the application of accounting principles for which the beginning fund balance has been restated.

GAAP requires reported plant assets to only include those assets on hand and in use. Consequently, disposals and other deletions should be recorded in the period in which they occur. The University made a correction to record library disposals that had not been recorded in the past because of inadequate record-keeping. Following is a summary of the effects of the restatement adjustments to investment in plant funds subgroup as of July 1, 1998, for the above described error correction:

	June 30, 1998		
	As Previously Reported	Restatement Adjustment	As Restated
Library Books and Materials	\$ 4,887,725	\$(1,114,648)	\$ 3,773,077
Net Investment in Plant	93,377,629	(1,114,648)	92,262,981

**NOTE 19 - 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).

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**NOTE 19 - RISK MANAGEMENT (CONTINUED)**

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

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries, clinics, hospitals, employees, and third- and fourth-year medical students.

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 the State Budget and Control Board Office of General Services for builder's risk insurance for losses arising from construction projects.

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 \$100,000 per occurrence.

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

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 19 - RISK MANAGEMENT (CONTINUED)**

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits, unreported claims, underinsurance, and co-insurance for coverage to a State or commercial insurer. The University has not reported an estimated claims loss expenditure and the related liability at June 30, 1999, 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, 1999, and the amount of the loss is reasonably estimable. Such 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 (including the effects of inflation and other societal and economic factors) and using past experience adjusted for current trends and other factors that would modify past experience.

In management's opinion, except as disclosed in Note 17, 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.

**NOTE 20 - DEFICIT FUND BALANCE**

The fund balance of auxiliary enterprises at June 30, 1999, included in unrestricted current funds is a deficit of \$6,365,560. This deficit fund balance was attributable to the University's athletics and housing activities which had deficit fund balances of \$7,872,547 and \$304,800, respectively.

Housing revenues during the past few years have not been sufficient to cover housing expenditures. As a result, fund deficits have accumulated erasing the accumulated positive fund balances. Contributing to the problem in 1998 was the closing of the South Campus dormitory and the significant cost associated with relocating the impacted students. The University has developed and implemented plans to eliminate the deficit position and return Housing to positive fund balances. A five-year strategic plan has been developed which includes fee increases over the plan period and capital improvements to the housing stock to maintain occupancy rates. These actions will help return the Housing financial results to a positive fund position.

The cumulative fund balance in Athletics is the result of several years of negative fund results. Significant restructuring efforts during the past few years have resulted in cost reductions and some improvement in financial results, however yearly results still reflect fund deficits. Current efforts are focused on improving revenue performance through increased marketing of athletics programs and fund raising. Also, additional restructuring plans targeting costs have been approved. A combination of these actions will help improve the financial performance in athletics and begin the process of reducing the accumulated fund deficit.

**SOUTH CAROLINA STATE UNIVERSITY**  
Notes to Financial Statements  
June 30, 1999

**NOTE 21 - 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 internal 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.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SOUTH CAROLINA STATE UNIVERSITY**  
Required Supplementary Information - Unaudited  
Year 2000 Issue  
June 30, 1999

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for the example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

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

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

The University has prepared for the year 2000 Issue through a combination approach of purchasing new systems from outside vendors and utilizing University personnel to conduct various assessments of Y2K issues. A project plan for remediation of all systems, including timelines, has been developed, costs determined and resources allocated. The University's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. The University feels it has successfully completed its Y2K remediation efforts and has made no plans for further funding.

Work to address the year 2000 issue with respect to each system critical to conducting operations falls predominantly within one of the following stages of work:

1. Awareness Stage - Establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment Stage - Identifying the systems and components for which year 2000 work is needed.
3. Remediation Stage - Making changes to systems/equipment.
4. Validation/Testing Stage - Validating and testing changes that were made during the remediation stage.

**SOUTH CAROLINA STATE UNIVERSITY**  
Required Supplementary Information - Unaudited  
Year 2000 Issue  
June 30, 1999

At June 30, 1999, the University had completed the awareness, assessment, and remediation stages and had completed, validation/testing work for mission-critical systems and equipment as follows: accounting, payroll, budgeting, receivables, debt management, human resource management, student information, physical facilities, telephones, the mainframe computer, personal computers, elevators, purchasing, information and library management.

The University is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the University's business.

**AUDITOR'S COMMENTS**

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 29, 1999

The Honorable James H. Hodges, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
Orangeburg, South Carolina

We have audited the basic financial statements of South Carolina State University as of and for the year ended June 30, 1999, and have issued our report thereon dated October 29, 1999. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

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

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

In planning and performing our audit of the basic financial statements of South Carolina State University for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

The Honorable James H. Hodges, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
October 29, 1999

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned duties.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described in Section B of the Auditor's Comments are material weaknesses. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of South Carolina State University as of and for the year ended June 30, 1999, and this report does not affect our report on the financial statements dated October 29, 1999.

This report is intended solely for the information and use of the Governor and of the governing body and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA  
State Auditor

## SECTION A – STATUS OF PRIOR FINDINGS

During the current audit, we reviewed corrective action taken on the findings reported in the prior Auditor's Comments section of the State Auditor's Report on Internal Control for South Carolina State University for the fiscal year ended June 30, 1998, and dated October 16, 1998. Adequate corrective action has been taken on each of the findings except for the following matters:

### Prior Year Comment

Endowment Requirements  
Bond Resolution Requirements  
Equipment Acquisitions Listing  
Auxiliary Enterprises  
Loan Funds  
Disbursement Voucher Processing  
Payroll Processing Procedures  
Student Billings System  
Student Accounts Receivable  
Leave Accounting Procedures  
Leave Liability Calculation

### Current Year Comment in Section B

Endowment Requirements  
Bond Resolution Requirements  
Equipment Acquisitions Listing  
Auxiliary Enterprises  
Loan Funds  
Disbursement Voucher Processing  
Payroll Processing Procedures  
Student Billing System  
Student Accounts Receivable Balances  
Leave Accounting Procedures  
Leave Liability Calculation

**SECTION B – REPORTABLE CONDITIONS - MATERIAL WEAKNESSES**

## **ENDOWMENT REQUIREMENTS**

As noted in the prior four audit reports, the University did not meet the requirements for its State Commission on Higher Education Endowment. This endowment requires the University to use interest earnings for an endowed professorship. Since its inception in 1990, the University has not made any awards from this endowment. In addition, the University did not meet the requirements for its Parler – Sharpe Scholarship Endowment. This endowment requires the University to award a \$500 scholarship to a qualified recipient each Spring. The University did not award this scholarship in fiscal year 1999.

We again recommend the University develop an overall endowment strategy to ensure the requirements of endowments are met.

## **BOND RESOLUTION REQUIREMENT**

### **Housing Net Revenues**

The bond resolution for the Student and Faculty Housing Revenue (SFHR) bonds requires that housing net revenues be at least 120% of the annual bond principal and interest payments. The bond resolution defines net revenues as total revenues less expenditures. In order to meet this requirement the University's net housing revenues would have to equal at least \$542,067. Fiscal year 1999 net revenues for housing operations were (\$189,316). Therefore the University fell \$731,383 short of meeting the SFHR bond resolution requirement.

We recommend that the University closely monitor housing net revenues and take the necessary steps to ensure that the SFHR bond resolution requirements are met.

## **EQUIPMENT ACQUISITIONS LISTING**

The University did not adequately maintain its equipment acquisitions listing during the year. During testing, we were unable to locate five of 60 items selected from the listing. In addition, we could not trace to the listing five of 60 items selected from various locations on campus.

The University relies largely on equipment custodians to report changes in the status of equipment for which they are responsible. It appears that not all custodians have been diligent in performing this duty.

We recommend the University perform a complete physical inventory as soon as possible in order to eliminate errors in the equipment acquisitions listing. Management should emphasize to equipment custodians the importance of immediately reporting any change in the status of the equipment for which they are responsible. Property management and internal audit should periodically test various locations for compliance with the University's policies and procedures.

## **EQUIPMENT RECONCILIATION**

The University does not reconcile capital equipment expenditures to equipment additions. As a result, it is impracticable to determine whether all capital equipment purchased has been added to the equipment listing and recorded in the accounting records. In order to document that the University is carrying-out its custodial responsibility, such a reconciliation should be performed periodically.

We recommend the University prepare formal, written reconciliations of capital equipment expenditures to equipment additions. The reconciliation should be performed at a regular interval, preferably monthly, and reviewed and approved by a responsible employee who is not involved in Procurement Services.

### **AUXILIARY ENTERPRISES**

An auxiliary enterprise is an entity that exists to furnish goods or services to students, departments, faculty, or staff, and charges a fee directly related to, although not necessarily equal to, the goods and services. We noted several problems during the testing of auxiliary enterprises, as outlined below. These weaknesses include the reallocation of expenditures from accounts in the athletic department to accounts in the unrestricted current fund, and two auxiliary enterprises that were not self-supporting. Also, the University was unable to provide a schedule of leave liability for each auxiliary, therefore the schedule of revenues and expenditures for each auxiliary did not include the effect of these liabilities.

Paragraph 6.22 of Audits of Colleges and Universities Industry Audit Guide (Audit Guide) states that the distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Further, the Audit Guide states that intercollegiate athletics should be classified as an auxiliary enterprise only when they are essentially self-supporting. Section 72.18 of Part IB of the 1999 Appropriation Act states that fees applicable to student housing, dining halls, student health services, parking facilities, laundries and all other personal subsistence expenses shall be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services over their expected useful lives.

Two of the University's auxiliary enterprises, the Athletic Department and Housing, did not comply with the above criteria. The ratio of revenues to expenditures for Athletics and Housing in fiscal year 1999 was 74% and 94%, respectively. In the prior two fiscal years, the Athletic Department had ratios of 76% and 71%. Again, we recommend that the University increase fees and/or reduce expenditures for both departments in order to comply with the above requirements. At a minimum, the University should reallocate student fees to cover the cost of operating the Athletic Department. Alternatively, the University should explore the possibility of reclassifying the Athletic Department from auxiliaries to student services.

In addition, the University reallocated \$245,000 of expenditures from accounts in the Athletic Department to educational and general accounts in unrestricted current funds. The expenditures were originally made from the Dawson Stadium Maintenance account, Sports Information, Ticket Office, Athletic Director and Football. Essentially this transfer removed all or a large portion of the expenditures from these athletic accounts. We are not aware of any legal basis for this reallocation. Also, such a transfer of expenditures is contrary to generally accepted accounting principles. Services provided other departments by the Athletic Department should be treated in the same manner as similar transactions with outside parties. Revenue should be recorded in the Athletic Department and expenditures should be recorded in the benefiting department.

## DISBURSEMENT VOUCHER PROCESSING

We tested a sample 60 University disbursement vouchers and found the following weaknesses in the processing of those vouchers:

### Use of Object Codes

Two cash disbursement vouchers totaling \$1,645 were recorded to incorrect object codes. These misclassifications were apparently due to oversight, the result of which violates the University account code structure and generally accepted accounting principles (GAAP). GAAP requires that expenditures be properly recorded for financial statement presentation. We recommend the University follow its account code structure and record all vouchers within the correct object code.

### Voucher Payments

Five cash disbursement vouchers totaling \$678 were not paid within 30 working days. The accounts payable department held or did not process these vouchers timely mainly because various University departments did not consistently document the date the items were received. These vouchers were paid between 6 days and 55 days late. Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment for goods and services within 30 working days of receipt of the goods or services. Furthermore, late payments are in violation of University policy, which requires prompt payment of obligations.

### Travel Reimbursement

We found five travel vouchers for which the University reimbursed claims that were unsubstantiated or in violation of travel reimbursement requirements as follows:

- 1) Three vouchers where employees did not submit their *Travel Reimbursement Documents* within the timeframe required by the University.

- 2) One voucher contained a *Request for Travel Document* that was approved after the actual travel date.
- 3) One voucher did not have adequate supporting documentation for travel expenses.

University policies and procedures governing disbursements require the individual to submit the *Travel Reimbursement Document* within five working days following the return from travel. Policy also require the individual to submit the *Request for Travel Document* for approval prior to the actual travel being taken. Finally, University policies governing disbursements require the individual to provide signed receipts for expenses incurred during travel which exceed \$15.

We recommend that the University more closely review the travel vouchers to ensure the safeguard of its assets. We also recommend that the University train staff on the proper review of travel vouchers and that individuals submitting travel vouchers be provided a copy of the *S.C. State University Travel Manual*.

## **LOAN FUNDS**

### **Allowance for Uncollectible Accounts**

The University has not established an adequate method for determining the allowance for uncollectible accounts for the African American Teacher Loan program and Education Improvement Act Loan program. Currently the University determines the allowance for each of these programs by applying the Perkins Loan program allowance percentage to each

receivable balance. However, since the actual Perkins default rate may not be the same as these other programs, a more appropriate method for determining the allowance is to base the estimate on the default rate of each individual loan program.

We recommend the University base the allowance for uncollectible accounts on historical data (i.e. actual default rates) for each individual loan program.

### Loan Balances

We found that two loan balances were overstated by a total of \$18,878 because the loans should have been canceled. Under the terms of the loan agreements, for each year a student teaches after graduation, one loan-year is canceled. These two recipients have taught a sufficient number of years to cancel the loan balances. Generally accepted accounting principles require that amounts be properly stated for financial statement presentation.

We recommend that the University adequately maintain its loan files and monitor cancellations in order to ensure an accurate accounting for loans.

## **PAYROLL PROCESSING PROCEDURES**

### Newly Hired Employees

We reviewed the personnel files and corresponding payroll transactions of 25 newly hired employees and found that the University overpaid one employee \$272, and underpaid one employee \$1,122. Employees should be accurately compensated for work performed. We recommend that the University recheck calculations, especially calculations for employees working partial pay periods. All such calculations should be reviewed and approved by a responsible employee.

### Terminated Employees

We reviewed 25 personnel files and corresponding payroll payments of terminated employees and found that the University overpaid one employee \$234. Employees should be compensated for work performed. We recommend that the University verify termination pay calculations. In addition the University should seek a refund of the overpayment.

### Dual Employment

We reviewed the personnel files of 15 dual employees and found that the University underpaid one employee \$38. Employees should be paid for work performed. We recommend that the University recheck calculations regarding dual employment compensation.

## **STUDENT BILLING SYSTEM**

For 12 of 60 student accounts receivable balances tested, the University was unable to provide documentation that students were billed for all three billing cycles during the fiscal year. There were 15 billings out of 180 tested that were not sent to the 12 students. Similar findings were reported in the previous three years. The University's Business and Finance Policies and Procedures Manual Section 4.1.2. states, "Statements are generated from the system by processing a billing cycle three times per year."

Failure to timely bill amounts due to the University may result in uncollected accounts. We recommend that the University comply with its policies and procedures by sending billing statements to all students with outstanding balances during each of the three billing cycles.

## **STUDENT ACCOUNTS RECEIVABLE BALANCES**

We tested a sample of 60 student accounts receivable balances from the Student Information System (SIS). Two of the balances did not agree with the June 1, 1999, billing statements. Because certain departments posted charges to students' accounts later than the actual date of the charges, student accounts receivable were understated \$80. We recommend that University officials correct the errors and post transactions to students' accounts daily. The University should implement procedures to verify the accuracy of student accounts and reconciliations of these accounts should be performed periodically.

## **LEAVE ACCOUNTING PROCEDURES**

We tested the personnel and payroll files for 25 of 63 employees who terminated employment with the University in fiscal year 1999 and noted the following:

### **Termination Processing**

One employee was not paid \$710 for accrued annual leave. Two employees had accrued annual leave balances that differed between the Human Resources and Payroll departments' records. Three employees had negative annual leave balances totaling \$3,236 at their respective termination dates. The University did not require the employees take leave without pay for periods of absence when the employees did not have accrued annual leave to cover these absences.

Employees in the Human Resources Department are behind in recording employees' leave hours used. A similar finding was reported in the prior two years. The University is not adhering to the Employee Manual which states "OHRM shall keep a record which accurately

reflects leave accrued and taken by all employees.” In addition, since the employees referred to above terminated employment prior to replenishing their debt of \$3,236, the University was in violation of State Code of Laws section 8-11-30, which states:

- (A) It is unlawful for a person:
  - (5) to receive a salary from the State or any of its departments which is not due; or
  - (6) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We recommend that University personnel recheck termination pay calculations. We also recommend that the University take steps necessary to ensure that annual leave records are in agreement between the Human Resources and Payroll departments. We also recommend that the University cease accruing negative leave and collect any balances due from former employees. Employees should be placed on leave without pay status when their annual leave balances are depleted.

### **LEAVE LIABILITY CALCULATION**

We selected a sample of 25 University employee annual leave balances and noted the following problems:

#### Account Purpose Codes:

The University reported six of 25 employee salaries in the wrong purpose code. One employee was not listed in a purpose code per the on-line system. Either the Personnel

Department is behind in updating their system for personnel account changes or the departments did not inform the Personnel Department of these personnel account changes. Expenditures resulting from the leave liability accrual should be properly reported in the correct University accounts. We recommend the University Personnel Department update all changes of personnel purpose codes.

#### Calculation of Leave Liability

The Human Resources Department converted their leave system from a 2080-hour basis to a 1950-hour basis for all 1950-hour basis employees and recalculated the annual leave balance for affected employees. These recalculations were incorrect for 15 of 25 employees tested. Also, the hourly rate for two employees was incorrect because the University used the 2080-hour basis when the 1950-hour basis should have been used to calculate the leave liability. These incorrect calculations understated the leave liability by \$1,334. Generally accepted accounting principles (GAAP) require amounts to be properly reported for financial statement presentation.

We recommend that the University Human Resources Department enter leave documents timely and base their calculation of leave liability on appropriate leave balances and rates.

**MANAGEMENT'S RESPONSE**

**1998-1999 AUDIT RESPONSES**

FINDING NO. 1            **Endowments Requirements**

Recommendation        *We again recommend the University develop an overall endowment strategy to ensure the requirement of endowments are met.*

Response:                The University has a policy currently in the review and approval process. The proposed policy will be presented to the University's Board of Trustees at its February 17, 2000 meeting for review and approval.

FINDING NO. 2            **Bond Resolution Requirement**

Recommendation        *We recommend that the University closely monitor housing net revenue and take the necessary steps to ensure that the SFHR bond resolution requirements are met.*

Response:                We agree with this recommendation.

FINDING NO. 3            **Equipment Acquisitions Listing**

Recommendation        *We recommend the University perform a complete physical inventory as soon as possible in order to eliminate errors in the equipment listing. Management should emphasize to equipment custodians the importance of immediately reporting any change in the status of the equipment for which they are responsible. Property management and internal audit should periodically test various locations for compliance with the University's policies and procedures.*

Response:                We agree with this recommendation and have begun implementation. The University completed a physical count of all equipment in August 1999. We are now investigating and correcting discrepancies. We will use the updated equipment acquisition list to perform periodic testing.

FINDING NO. 4            **Equipment Reconciliation**

Recommendation        *We recommend the University prepare formal, written reconciliation of capital equipment expenditures to equipment additions. The reconciliation should be performed at a regular interval, preferably monthly, and reviewed and approved by a responsible employee who is not involved in Procurement Services.*

Response:                We agree with this recommendation. Reconciliation of monthly equipment additions will be performed in the General Accounting Office and reviewed within the same.

FINDING NO. 5            **Auxiliary Enterprises**

Recommendation        *We recommend the University increase fees and/or reduce expenditures for the Athletic Department and Housing in order to comply with the requirement of self-supporting.*

Response:                The University prepared and received Board of Trustee approval for a 5-year Strategic Plan, that addresses housing fee increases. The Athletic Department is being reviewed for a possible change in classification.

FINDING NO.6            **Disbursement Voucher Processing**

Recommendation        *We recommend that the University more closely review the travel vouchers to ensure the safeguard of its' assets. We also recommend that the University train staff on the proper review of travel vouchers and that individuals submitting travel vouchers be provided a copy of the S.C. State University Travel Manual.*

Response:                We agree with this finding.

FINDING NO.7            **Loan Funds**

Recommendation        *We recommend the University base the allowance for uncollectible accounts on historical data (i.e. actual default rates) of each individual loan program.*

*We further recommend that the University adequately maintain its loan files and monitor cancellations in order to ensure an accurate accounting for loans.*

Response: The University is in the process of gathering data on the African American Teacher loan and Education Improvement Act loan programs to determine actual default rates, if any.

We agree with this recommendation and the Office of Loan Management is currently working to update all loan files.

FINDING NO. 8 **Payroll Processing Procedures**

Recommendation *We recommend that the University recheck calculations, especially calculations for employees working partial pay periods. All such calculations should be reviewed and approved by a responsible person.*

*We recommend the University verify termination pay calculations. In addition the University should seek a refund of the overpayment of \$234 from an employee terminated and overpaid.*

*We recommend that the University recheck calculations regarding dual employment compensation.*

Response: We agree with these recommendation.

FINDING NO. 9 **Student Billing System**

Recommendation *We recommend that the University comply with its policies and procedures by sending billing statements to all students with outstanding balances during each of the three billing cycles.*

Response: We agree with this recommendation.

FINDING NO. 10            **Leave Accounting Procedures**

Recommendation        *We recommend that University personnel recheck termination pay calculations. We also recommend that the University take steps necessary to ensure that annual leave records are in agreement between the Human Resources and Payroll Departments. We also recommend that the University cease accruing negative leave. Employees should be placed on leave without pay status when their annual leave balances are depleted.*

Response:                We agree with this recommendation.

FINDING NO. 11            **Leave Liability Calculation**

Recommendation        *We recommend the University Human Resources Department update all changes of personnel purpose codes.*

*We recommend that the University Human Resources Department enter leave documents timely and base their calculations of leave liability on appropriate leave balances and rates.*

Response:                We agree with this recommendation.