CLEMSON
UNIVERSITY

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LETTER OF TRANSMITTAL

September 30, 1998

To President Curris,
Members of the Board of Trustees, and
Citizens of South Carolina

We are pleased to present to you the Comprehensive Annual Financial Report of Clemson University for the year ended June 30, 1998. The audit report of our auditors, Rogers & Laban, PA, appears in the Financial Section, and expresses an unqualified opinion on the University's financial statements.

INTRODUCTION

This Comprehensive Annual Financial Report includes the financial statements for the year ended June 30, 1998, and other information useful to those we serve and to those to whom we are accountable. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. We believe the information is accurate in all material respects and fairly presents the University's financial position, as well as revenues. expenditures, transfers, and other chances in fund balances. The Comprehensive Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 1998. The report is organized into three sections.

The **Introductory Section** includes the transmittal letter, a listing of the University Board of Trustees, an organization chart, a University overview and the Certificate of Achievement for Excellence in Reporting awarded to the University for the year ended June 30, 1997. This section is intended to acquaint the reader with the organization and structure of the University, scope of its operations, its financial activities, the significant factors contributing to the current fiscal environment, and anticipated factors influencing our future.

The **Financial Section** presents the basic financial statements and the report of the external auditors. The basic financial statements are prepared in accordance with generally accepted accounting principles for public colleges and universities, as defined by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. These statements allow for a reasonable comparison of the University's financial position, as well as revenues, expenditures, transfers, and other changes in fund balances with peer institutions.

The **Statistical Section** contains selected financial, statistical, and demographic information. This information is intended to present to readers a broad overview of trends in the financial affairs of the University.

Clemson University was established in 1889 in accordance with the will of Thomas Green Clemson and the Acceptance Act of the General Assembly of South Carolina. Clemson University is governed by a board of thirteen members, including six elected by the State General Assembly and seven appointed self-perpetuating life members. Clemson University operates as an autonomous unit of the State of South Carolina (a primary government) as a state supported institution of higher education.

The financial statements represent all activities of Clemson University. Although the IPTAY Scholarship Fund and the Clemson Research Facilities Corporation are legally separate entities, the financial statements of these entities are blendedin the Clemson University Financial Statements. Governmental Accounting Standards require a blending of these entities' financial statements when the activities of the component units are so intertwined with the University that they are in substance the same as the University. Please refer to Note 1 in the Notes to the Financial Statements for further information about the reporting entity.

Clemson University is promoted and supported through activities of other entities, the Clemson University Foundation, Clemson University Research Foundation, Clemson University Real Estate Foundation, Inc., Clemson Engineering Foundation, Clemson Architectural Foundation, and the Clemson University Continuing Education and Conference Center Complex Corporation. These separately chartered entities activities are governed by their Boards of Directors. These entities are not included in the financial statements, but their financial activity is included in the footnotes to the financial statements. The financial statements for these entities are available in their respective offices or may be obtained from the University Comptroller's Office.

ECONOMIC CONDITION AND OUTLOOK

The State of South Carolina ended the fiscal year with a $254.9 million surplus, the fourth consecutive year this surplus approached or exceeded $250 million. As a publicly funded higher education institution, 39.2 percent of Clemson University's current operations are financed through State appropriations.

Higher education continued as a high priority in 1997-98, with landmark legislation designed to make an education at a four year college affordable and obtainable for every graduating high school senior in the State. The Legislative Incentive for Future Scholarship (LIFE) program was passed by the legislature and signed into legislation by the Governor. This program provides a $1,000 scholarship each semester for students with a B average and an SAT score of over 1000. Minimum credit hour requirements, and eligibility rules that prohibit recipients charged with felonies or drug and alcohol offenses, reinforce the expectation that students graduate on time and possess the social and moral values to be good citizens. Additional legislation offered tuition tax credits for all students, regardless of grades or SAT scores, for tuition paid to South Carolina colleges. A credit for up to 25 percent, with a maximum credit of $850 for tuition paid to four-year colleges, was made available to students and parents graduating after May 1997, from a South Carolina high school. The University anticipates that between 3,500 and 4,000 students will be eligible for these programs for the fall 1998 semester.

Also, the State continued its strong support of the Palmetto Fellows scholarship program and the State-funded Need-Based Grant program by providing almost $23 million for these programs in 1997-98. The University's share of these two scholarship programs rose from $2.8 million to $3.6 million this past year. In addition, $33.7 million of the $254.9 state surplus was allocated to non-recurring higher education needs. The University received $3.9 million of these Capital Reserve funds in 1997-98.

Based on legislation enacted in 1995-96, the State of South Carolina changed the funding mechanism for higher education institutions this past year. The South Carolina Commission on Higher Education, the entity charged with oversight responsibility for State higher education institutions, initiated a phased-in change from a formula based primarily on credit hour production to a performance based allocation. For 1997-98, the first $670 million allocated to higher education was allocated using the traditional formula. For allocations above this base, 75 percent was allocated by the traditional formula, and 25 percent was allocated according to the new performance funding model. For 1998-99, those percentages will be reversed, with 75 percent allocated according to performance, and 25 percent according to the traditional formula. The University fared well in this performance analysis, receiving $788,000 of the $4.6 million available for performance funding.

The University continues to monitor each of the 37 performance indicators for higher education institutions. Improvement or continued excellence in each of these indicators will result in efficiency, effectiveness, and higher funding.

MAJOR INITIATIVES In 1997-98, Clemson University experienced what by many measures was one of its most successful years.

Establishing University Priorities

Through a number of simultaneous and related initiatives, Clemson made progress toward defining the kind of university it will be in the 21st century. The work of the Commission on the Future of Clemson University brought more than 200 alumni, business and professional leaders to campus. Commission members volunteered their time, energy and counsel for a series of intensive workshops and follow-up meetings that gave the university the benefit of external advice and perspective.

The Clemson Board of Trustees formally adopted a new mission and vision statement, and endorsed a set of implementing concepts designed to guide the university toward achieving the mission. Students, faculty and staff provided significant input into the final product. The documents can be viewed at www.clemson.edu

Technology

The introduction of a student information technology fee is helping Clemson become one of the nation's most "wired" campuses. Clemson's virtual laptop system, allows any student to go to any of more than 30 computer labs on campus, sit down at a terminal, type in a password and have the screen converted into a personalized, individually configured workstation. It is as if the student had brought his or her own computer into the lab and plugged it into the network. Students on campus have access to almost 700 computers in the various labs. Resnet, the system that allows access to the university computer network and the Internet from dorm rooms, was completed in the fall of 1998, giving every dorm room on campus direct access to the university's computer system. Clemson also has created more than 50 "smart" classrooms that allow for any type of electronic communication -- including cable TV, computer disk, Internet-based, or closed-circuit -- and has developed the Collaborative Learning Environment, a set of tools to facilitate innovative use of technology in the classroom and across campus. These are just a few of the innovations being supported by the $50 per semester fee, which provides the university's first source of recurring funding for information technology projects.

A major initiative to replace administrative systems software got under way this year with the selection of PeopleSoft to provide new human resource and financial information systems. Funded through internal reallocations and bolstered by a gift-in-kind of human resource software valued at $540,000.

Public Service Activities

The Public Service and Agriculture Division adopted a plan that will focus on solving problems in five key areas – agricultural productivity and profitability, food safety and nutrition, environmental conservation, economic and community development, and youth development. The five areas of emphasis were chosen because they reflect the state's needs and strengths of Clemson's faculty. They also align Clemson with a national effort to modernize the activities of land-grant universities.

Through a series of six teleconference seminars, Clemson led a nationwide discussion among colleges and universities on the future of land-grant universities. The interactive teleconferences linked scholars and administrators from more than 70 institutions to focus on common concerns and map out a strategy for agricultural research and service in the 21st century. The teleconferences were sponsored by Clemson's Public Service Activities programs and the W.K. Kellogg Foundation, in cooperation with the College of Engineering and Science, South Carolina Alliance 2020, the National Association of State Universities and Land Grant Colleges, and the Council for Agricultural Science and Technology.

Clemson Extension is helping low-income families stretch their food budget and get the most nutrition for the dollar. The Expanded Food and Nutrition Education Program teams Clemson with the U.S. Department of Agriculture, the state Department of Social Services and various community service agencies to deliver nutritional information, food safety tips and food-purchasing advice to families, women of childbearing age and youths ages 5-19. A pilot program in Charleston aims to make nutrition services more accessible to young people in public housing developments involves Clemson Extension, the USDA, the federal Department of Housing and Urban Development, the Charleston Housing Authority, the state health department and the Junior League. About 150 children are being tutored on nutrition in an after-school program that officials hope will become a national model.

Research

Research achievements in 1997-98 helped the university move closer to its goal of national prominence as a research institution. External research grants awards totalled more than $60 million, representing at least a 10 percent increase for the second year in a row.

Clemson leveraged a $1.3 million NSF grant to study the genetics of crop plants and their pests with another $542,000 in university funds to establish the Clemson University Genomics Institute -- a research effort to understand the basic building blocks of life. The Institute also has received a $3 million grant from the Swiss-based life science company, Novartis, to construct a molecular genetic map for rice and study the genetics of its major disease threat, called rice blast.

Clemson's biomedical alliance with the Greenville Hospital System is showing promising results on a variety of health-care fronts. Thousands of hip-replacement patients may benefit from research aimed at improving design of artificial joints. Another Clemson/GHS study on plant-based is investigating the ability of plant-based chemicals to prevent tumor growth.

Clemson is one of seven universities nationwide selected by IBM to split a $3.5 million grant to develop Internet2, a project involving higher education, government and industry in an effort to create the successor to today's Internet. Each of the seven recipients -- Clemson, Duke, Indiana, Northwestern, South Carolina, Chicago and Michigan -- will receive equipment worth an estimated retail value of $300,000.

Clemson leveraged its past research success into an investment in the future. Using revenue from royalties for software developed by the Division of Computing and Information Technology, Clemson acquired two high-performance Sun Microsystems computers. The purchase gives Clemson more computing power than any other institution in South Carolina and puts it on par with the nation's top research universities.

Private Giving

In 1997-98, Clemson University and the related foundations set a record in private giving to academic programs, with donors contributing $31 million, more than a 50 percent increase over the previous year. Gifts highlights included:

- a record $19.8 million in cash and stocks;
- a record $6.4 million for scholarships, fellowships and other student aid;
- the largest corporate gift in Clemson history -- a $5.6 million research facility in the Clemson Research Park from WMX Technologies Inc. of Oak Brook, Ill.

Construction

The most obvious change in 1997-98 was to the physical campus. The addition of several major new facilities, and the beginning of work on others, promises to transform both the look and the operation of the university.

Work on the Martin Inn next to the Clyde V. Madren Continuing Education and Conference Center and the Walker Course championship-level golf facility, was substantially completed in 1997-98. The inn is named for alumnus James F. Martin, whose $1.5 million gift to endow a faculty chair in the College of Business and Public Affairs is also providing a reserve fund for the lodging facility.

Landscaping and outdoor facilities at the Conference Center were made possible by the Class of 1947 golden-anniversary fund-raising drive. In addition to previous gifts, the class committed to raise another $250,000 for the "Southern Green," which will include a garden, fountain, terraces, and an open-air pavilion for outdoor meetings.

Construction began on the Hendrix Student Center, a 108,000-square-foot facility that will house a career center, bookstore, meeting rooms, convenience store, food court, theater, coffee shop, hair salon, copy center and lounge. The building is named for alumnus and trustee Leon J. "Bill" Hendrix, who has committed $1 million in trusts to provide for the center's long-term operation and maintenance.

A major enhancement to the South Carolina Botanical Garden was the opening of the Wren House, a Southern Living® Showcase Home. To date, more than $2 million in donations and in-kind gifts have been received to support the home. After its year of operation as a Southern Living® Showcase home, the building will become the Fran Hanson Visitors Center and the site of the Heritage Corridor's discovery center. A new museum to house the university's geology collection and a carriage house featuring a cafe, offices and other facilities opened soon afterward, made possible by gifts from Bob and Betsy Campbell, for whom the facilities are named.

The Class of 1944 contributed $580,000 for construction of a new 5,100-square-foot Visitors Center that more than quadrupled the size of the facility that greeted more than 30,000 guests last year.

FINANCIAL INFORMATION

Internal Control Structure and Budgetary Control

The Financial Affairs Division of the University is responsible for establishing and maintaining an effective structure of internal control. The structure of internal control is designed to ensure that certain organizational objectives are met. Accordingly, organizational structure, policies, and procedures have been established to safeguard assets, ensure the reliability of accounting data, promote efficient operations, and ensure compliance with established governmental laws, regulations and policies, University policies, and other requirements of sponsors to whom the University is accountable.

As a recipient of federal financial awards, the University is responsible for ensuring compliance with all applicable laws and regulations relating to such assistance. A combination of State and University policies and procedures, integrated with the University's structure of internal controls, provides for this compliance. The University is included as part of the statewide single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133.

The State Budget and Control Board requires the University to submit an annual balanced budget for both its Educational and General and Extension and Public Service components. Each recognized college or budget center of the University is provided with a level of appropriation for current unrestricted fund activities. This appropriation limits total annual current unrestricted fund expenditures. Budgetary controls are incorporated into both the University's accounting system and the State's financial management system to ensure that imposed expenditure constraints are observed. Periodic financial reports comparing actual results with budgeted amounts are provided at both the University and State level.

GENERAL CLEMSON UNIVERSITY FUNCTIONS

Current Fund Revenues

Current fund revenues by source for fiscal year 1997-98 are depicted in Table 1. Total revenues for the year were $373.4 million, an increase of 5.2 percent over the previous year.

As a state-supported public institution, the University's predominant source of funding continued to be state appropriations. State appropriations funded 39.2 percent of the University's current operations, providing an additional $6.8 million in 1997-87, a 4.8 percent increase from the previous fiscal year. However, more than $4 million of these new funds were specifically earmarked for mandated salaries and benefits increases, scholarship programs, or specific public service research programs. The remainder of this increase, allocated from the State's Capital Reserve Fund, was restricted to non-recurring expenditures.

Revenues from gifts, grants and contracts exhibited a substantial 10 percent increase in 1997-98. While gifts to the University were up, the main reason for this increase was an increase in sponsored research grants and contracts. The appointment of a University-level Chief Research Officer, and faculty incentive programs designed to spur research proposals reaped great dividends. Federal and State revenues increased by $2.1

million, while private funding increased by $2.3 million. Correspondingly, indirect cost revenues from these sources increased by over $500,000 in 1997-98.

Student fees increased 5.4 percent in 1997-98. While there was a slight fee increase for out-of-state students, academic fees for in-state students did not increase this past year. Increased enrollment, and the imposition of two user fees also contributed to this increase. For the first time, a $50 per semester student technology fee and a $20 per semester student activity fee was assessed and restricted to student information technology and student activity needs, respectively.

The 7.7 percent increase in other sources revenue was attributable to computer services provided by the University to other state agencies, and an overall increase in endowment income due to recent gifts and bequests. The 2.4 percent increase in auxiliary enterprise revenues was directly attributable to Athletics, with increases in basketball and football revenues, Atlantic Coast Conference receipts, and corporate sponsorship income.

The 5.3 percent decline in Federal appropriations was merely the result of timing differences between the State and Federal fiscal years. The University's Federal land-grant appropriations are substantially the same as for the prior year.

Current Fund Expenditures And Mandatory Transfers By Function

Current fund expenditures, and mandatory transfers by function for fiscal year 1997-98, are depicted in Table 2. Total expenditures and mandatory transfers were $361.1 million, a 4.9 percent increase from the previous year. A state mandated 2.5 percent pay raise combined with a University-funded 1 percent supplement for faculty was responsible for a considerable portion of this increase.

Two functional expenditure categories experienced "double-digit" increases in 1997-98. Research expenditures were up a substantial 10.9 percent, mirroring the double-digit increase in gifts, grants and contracts.

Among the more significant new research awards and expenditures in 1997-98 were:

- Over $4 million in Federal and private grants awarded to establish the Clemson Genomics Institute.

- Selection by IBM as one of the seven Universities to share a $3.5 million Internet2 grant.

- $1.5 million in State funds awarded for the Agri-Systems Productivity and Profitability program.

The 14.1 percent increase in institutional support expenditures was primarily attributable to two items. This past fiscal year the University took the first strides towards replacing its 22 year-old administrative software systems for human resources and finance by purchasing PeopleSoft, Inc., and enlisting KPMG Peat Marwick as an implementation partner. Software, hardware, consulting, training and other associated costs of this effort contributed to the increase in institutional support expenditures. In addition, the recovery of general and administrative amounts assessed to certain self-supporting and auxiliary units was accounted for as transfers in. In prior years these amounts were credited to institutional support expenditures.

Two other functional expenditure categories experienced increases slightly greater than the 4.9 percent average. The 6.1 percent increase in auxiliary enterprise expenditures was directly attributable to Athletics (mainly for basketball bonuses and contractual guarantees), and to Transportation Services, which purchased almost $1 million worth of new fleet vehicles as part of its scheduled replacement plan. The 5.9 percent increase in student services resulted from the re-classification of the Office of Vice President for Student Affairs from institutional support in accordance with generally accepted accounting principles.

Increases in the following functional expenditure categories were slightly below the campus average of 4.9 percent: instruction, extension and public service, and scholarships and fellowships. The re-allocation of administrative and support resources from instruction to research allowed the University to hold instruction expenditures to a 2.1 percent increase. The extension and public service increase of 2.8 percent was primarily attributable to the state mandated 2.5 percent pay raise. There were no "new" funds appropriated by the State for extension and public service in 1997-98. The 2.2 percent increase in scholarships and fellowships resulted from State-funded increases in the Palmetto Fellows program, Federally funded increases for Pell grants, and increases for graduate fellowships funded by Federal and private sponsors.

Expenditures for operation and maintenance of plant were down a substantial 9.6 percent in 1997-98, as the University began reaping rewards from previous decisions. A proactive repair policy – literally fixing things before they are broken – served to minimize the cost of repairs this past year. Likewise, previous one-time investments, such as fixed controls for University HVAC systems, resulted in substantially fewer service calls.

Expenditures in two other functional expenditure categories declined slightly in 1997-98. The decrease in academic support expenditures of (1.2) percent resulted from lapsed salaries in the University computing division as programmers left for more lucrative positions in private industry to address the "Year 2000" problem. The "buyer's market" created by this situation made it difficult to hire new programmers into traditional State-funded positions. The (.6) percent decline in bonded debt and mandatory transfers resulted from the pay-off of several University capital lease and note payable obligations.

Auxiliary Enterprises

Auxiliary enterprises are campus units that are managed as essentially self-supporting activities and exist to furnish goods or services to students, faculty, staff, and departments. Auxiliary enterprises activities include:

Athletics
Student housing
Campus bookstore
Food services
Student health center
Athletics
Student housing
Campus bookstore
Food services
Student health center

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the resources available to the University, the accounts of the university are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying comprehensive annual financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The University's five self-balancing fund groups are as follows:

Current Funds—include all unrestricted and restricted resources which are available for the operating purposes of performing the primary missions of the University. Current funds are considered unrestricted unless restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Receipts that are restricted are recorded as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for restricted purposes during the current fiscal year. Also included in current funds are the University's auxiliary enterprises.

Loan Funds—include resources received from donors, governmental agencies, and mandatory institutional matching grants which are restricted for use in making loans to students, faculty, or staff.

Endowment and Similar Funds—include:

Endowment funds which are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and income only be utilized.

Term endowment funds that are similar to endowment funds, except that all or part of the principle may be used after a stated period of time or on the occurrence of a certain event.

Quasi-endowment funds which have been established by the governing board for the same purposes as endowment funds; any portion of quasi-endowment funds may be expended.

Plant Funds—include:

Unexpended Plant funds subgroup which accounts for the resources utilized to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets.

Retirement of Indebtedness funds subgroup which accounts for resources specifically accumulated for interest and principle payments, debt service reserve funds, and other debt-related charges.

Investment in Plant funds subgroup which accounts for all long-life assets of the University, construction in progress, and related debt for funds borrowed and expended for the acquisition of plant fund assets.

Agency Funds—include funds held by the University as custodian or fiscal agent for others.

Fiduciary Operations

The majority of the employees of Clemson University are covered by retirement plans through the South Carolina Retirement System (SCRS), and the South Carolina Police Officers Retirement System (PORS), which are cost-sharing multiple employer defined benefit public employee retirement systems.

The University's liability under the retirement plans is limited to the amounts appropriated in the South Carolina Appropriations Act for a given year. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans. All required contributions due to the plan were met.

Debt Administration

The University's financial statements indicate $57,096,320 in bonds and Certificates of Participation outstanding at June 30, 1998. The University's bonded indebtedness consisted of: State Institution Bonds of $13,540,000, Plant Improvement Bonds of $8,235,000 and various revenue bond issues totaling $30,755,000. State Institution Bonds are general obligations of the State of South Carolina and are secured as to principal and interest by a pledge of full faith, credit, and taxing power of the State and are paid with tuition and matriculation fees. Plant Improvement Bonds are secured by a pledge of a special student fee designated for the improvement of plant. Revenue bonds issued for student and faculty housing, stadium refunding, plant improvement, parking and various auxiliary facilities are paid with pledged net revenues, special imposed student fees, stadium seat taxes, and in one case, a loan interest subsidy from the federal government.

The University's balance sheet also includes $4,566,320 in Certificates of Participation payable of the Clemson Research Facilities Corporation (CRFC), a blended component unit presented in a discrete column in the University's financial statements. The proceeds relating to this debt were used to construct a building which the University leases. The lease payments are used by CRFC for debt retirement and interest payments.

During the fiscal year ending June 30, 1998, the University issued $30,135,000 in Revenue Bonds, and $6,985,000 in Plant Improvement Bonds, in large part, to advance refund $19,057,705 and $6,480,000 previous bonds for these two categories, respectively. The University engaged in advance refunding to reduce its debt service over the next 15 years and to remove itself from certain restrictive covenants associated with the refunded bonds. Details regarding the interest rates of these issues, maturity and redemption information, and the economic gain on redemption, are available in Note 4 of the Financial Section.

The University has developed a comprehensive debt management strategy to provide guidelines relative to acceptable levels of debt and to formulate a mechanism for calculating and monitoring debt while being cognizant of the effect of long-term borrowing on the University’s credit rating. This strategy acknowledges that, although all unrestricted University revenues are generally available to meet any need, debt issued for one operational segment should be repaid from resources generated by that segment.

Cash Management

State law requires that substantially all of the University’s receipts and disbursements be made using bank accounts in the name of the South Carolina State Treasurer. The State Treasurer performs almost all cash management activities for University cash balances on deposit in state bank accounts. As a participant in the State’s cash management pool, the University does receive investment income allocations for certain cash balances in the restricted current funds, loan funds, endowment and similar funds, and plant funds. Auxiliary balances are the only items in the unrestricted current fund that earn investment income.

Risk Management

The University participates in a statewide risk management program in which the State assumes substantially all risks for unemployment and workers’ compensation benefits and claims of covered employees for health, dental, and group-life insurance benefits. In addition. the University pays premiums to the State’s Insurance Reserve Fund to cover the risk of loss related to the following assets and activities: real property, its contents, and other equipment, motor vehicles and aircraft, general tort claims, and medical malpractice claims. The University also obtains employee fidelity bond insurance coverage for all employees through a commercial insurer for losses arising from theft or misappropriation. The University believes that all coverage is sufficient to preclude any significant uninsured losses.

OTHER INFORMATION

Audits

State law, federal guidelines, and certain bond convenants require that the University’s accounting and financial records be audited each year. For the fiscal year ending June 30, 1998. the State Auditor contracted with the independent certified public accounting firm of Rogers & Laban, PA, to perform the University’s annual audit. Under the terms of this contract, Rogers & Laban, PA, will also audit the University’s financial statements for the next three fiscal years. Additionally, Clemson University internalauditors perform fiscal, compliance, and performance audits. The reports resulting from these audits are shared with you, the Board of Trustees, and the University’s management.

Both the reports of the independent auditor and the reports prepared by the University internal auditors are presented to the Clemson University Board of Trustees.

The audit of the University’s federal financial assistance programs is performed by the Office of the State Auditor in conjunction with the statewide Single Audit.

Administrative Information Systems

The University initiated an in-depth assessment of its administrative information systems during the past fiscal year. While insuring that the University's administrative computing systems are fully operational and functional into the Year 2000 and beyond is of critical importance, there were other equally important reasons for this analysis. Most of the University's systems operate on a mainframe-based operating platform, and many systems are over 20 years-old and had already been scheduled for replacement. The assessment considered, not only Year 2000 compliance issues, but also, alternative technologies and information delivery systems that could streamline University business processes while providing even more meaningful information to users of this information.

PeopleSoft, Inc., software, which utilizes relational database technology, and is PC-based, was selected and purchased to replace the mainframe-based human resources and financial administrative systems. This decision was made, in large part, because PeopleSoft, Inc., offers a full suite of administrative systems for higher education, including student information and development modules. KPMG Peat Marwick was selected as an implementation partner, and work began in earnest to replace both the existing human resources and financial systems and their PeopleSoft counterparts for the year beginning July 1, 1999. In the meantime, programming has occurred in the existing student information and development systems to ensure that they are Year 2000 compliant.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Clemson University for its comprehensive annual financial report for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Clemson University has received the Certificate of Achievement annually since the fiscal year ended June 30, 1993. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

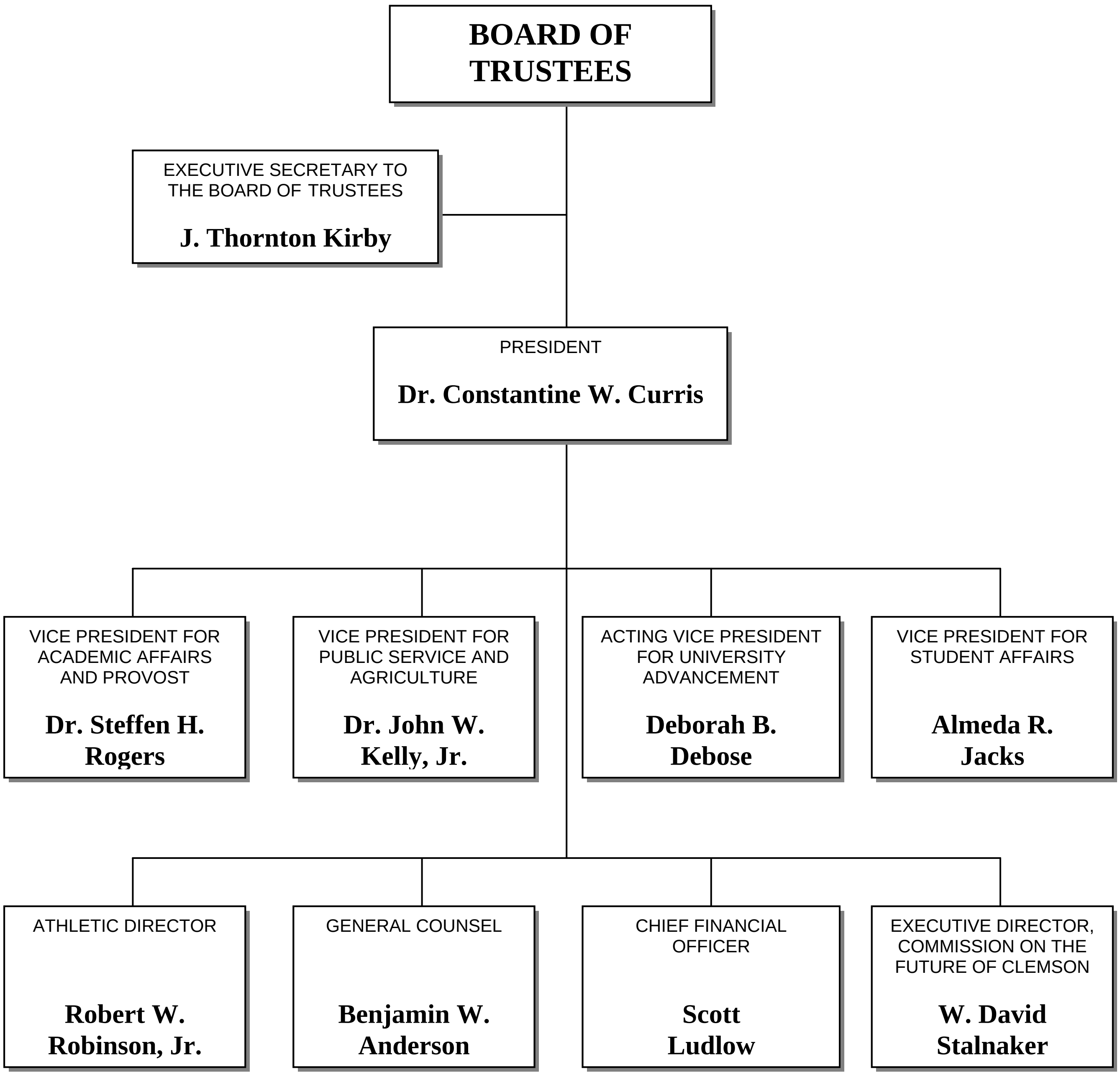
The preparation of the Comprehensive Annual Financial Report in a timely manner would not have been possible without the coordinated efforts of the Comptroller’s Office, Fiscal Affairs, University News Services, Institutional Research, and Printing Services. In addition, the Office of the State Auditor provided invaluable assistance. We would also like to thank Rogers & Laban, PA, the University’s independent auditors for their assistance.

Sincerely,

Scott Ludlow
Chief Financial Officer

CLEMSON UNIVERSITY BOARD OF TRUSTEES

CLEMSON UNIVERSITY
ORGANIZATION CHART



State of South Carolina
Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA. S.C. 29201

THOMAS L WAGNER. JR.. **CPA** **(803) 253-4160**
STATE AUDITOR **FAX (803) 343-0723**

October 9, 1998

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

This report on the audit of the financial statements of Clemson University for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr. CPA
State Auditor

TLWjr/trb

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying basic financial statements of Clemson University as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statement are the responsibility of the University's management Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Clemson Research Facilities Corporation, a component unit of the University, which are presented in a discrete column as part of the primary entity in the accompanying financial statements. The financial statements of the Clemson Research Facilities Corporation were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for that component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances current: funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Clemson University an institution of the State of South Carolina. These financial statements referred to above include the financial activities of the IPTAY Scholarship Fund and the Clemson Research Facilities Corporation, component units of the University. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government

in our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of Clemson University at June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit 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 winch related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As discussed in Note 20 to the financial statements, the University changed its method of accounting for cash and cash equivalents in the State's internal investment pool and for certain investments as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 11, <u>Accounting and Financial Reporting for Certain. Investments and for External Investment Pools</u>. Also, as discussed in Note 20, the revenue and expenditures related to certain tuition waivers were discovered by management of Clemson University to be overstated in the prior year. Also, as discussed in Note 20, the University changed its capitalization policy for qualifying equipment The changes have been accounted for as prior period adjustments and accounting changes and the prior year's comparative totals have been restated.

The information presented in the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the official statements. Such information has not been subjected to the auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on it.

Columbia, South Carolina
September 25, 1998

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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) Determine its budget without another government's having the authority to approve and modify that budget.
(2) Levy taxes or set rates or charges without approval by another government.
(3) Issue bonded debt without approval by another government.

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

Primary Entity

Clemson 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 59-119-20 of the Code of Laws of South Carolina in accordance with the will of Thomas Green Clemson and the Act of Acceptance of the General Assembly 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 some of their board members and budgets a significant portion of their funds.

The University is governed by a board of thirteen members, including six elected by the State Legislature and seven self-perpetuating life members. Accordingly, as such it administers, has jurisdiction over, and is responsible for the management of the University.

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

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

Component Unit Blended in Primary Entity — Within University Fund Groups

The IPTAY Scholarship Fund is an unincorporated association operating under the direction of a Board of Directors selected by the membership of IPTAY. The IPTAY Scholarship Fund's purpose is to provide funds for athletic scholarships for students of Clemson University and to provide for such other needs of the University as directed by the IPTAY Board of Directors.

The IPTAY Scholarship Fund deposits all contributions, when received, directly to the University's restricted current and endowment funds. The IPTAY Scholarship Fund's financial information is blended in the University's financial statements using the criteria that it would be misleading to exclude the financial activity from the University's financial statements.

IPTAY operates under the modified cash basis of accounting and does not recognize pledged contributions until the contributions are actually received. It was not practicable to estimate the net realizable value of the uncollected pledges due to IPTAY at fiscal year end.

A complete financial statement of the IPTAY Scholarship Fund is available upon request from the Clemson University Comptroller's Office.

Component Unit Blended in Primary Entity — In Discrete Column

The Clemson Research Facilities Corporation (CRFC) is a separately chartered 501(c)(3) nonprofit corporation organized in 1990 to construct research facilities and finance the related costs on behalf of Clemson University. The Clemson Research Facilities Corporation is governed by a Board of Directors comprised of four individuals who are appointed by the Clemson University Board of Trustees. This relationship allows the University to impose its will on the Board of Directors resulting in a presentation of the CRFC in a discrete column of the University's financial statements.

A complete financial statement of the Clemson Research Facilities Corporation is available upon request from the Clemson University's Comptroller's Office.

Presentation of Component Units

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

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

Basis of Accounting

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

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

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

Basis of Accounting — Discretely Presented Component Unit
The Clemson Research Facilities Corporation

The University's discretely presented component unit conducts business-like activities. It is financed primarily through user charges. The measurement focus of this entity is on the flow of economic resources and the determination and presentation of net assets, net income or changes in net assets or other, and cash flows. This entity uses the accrual basis of accounting.

The accounting policies of the Clemson Research Facilities Corporation conform to GAAP applicable to governmental not-for-profit activities as prescribed by GASB. Effective for fiscal year 1996, this non-profit component unit implemented GASB Statement 29 *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities.* That statement provides that such entities have two reporting model options. This University component unit applies the not-for-profit accounting and reporting principles set forth in the AICPA's Statement of Position (SOP) 78-10 as modified by all applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

The Clemson Research Facilities Corporation uses the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred.

Fund Accounting - University Funds

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

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

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or when the endowment agreement requires the income to be added to the corpus. For these exceptions, income is reported in the Endowment and Similar Funds group.

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 meet 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, student health services, laundry, printing, transportation, ID card access, parking, and communication services. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was $11,176,386 at June 30, 1998.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, 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. Some of the University's endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and unrealized and realized gains/losses attributable to investment transactions.

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. Resources specifically set aside and accumulated for major renewals and replacements of institutional properties are recorded in the unexpended plant fund. Receipts legally designated solely for plant improvements or renewals and replacements are recorded in the University's unexpended plant fund as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness (except for capital lease obligations), and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *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 organizations, and other groups directly associated with the University.

Fund Accounting — Discretely Presented Component Units

The assets, liabilities and fund balance of the Clemson Research Facilities Corporation are reported in a self-balancing fund group, which represents funds available for support of the corporation's operations. These statements are in accordance with the model adopted for governmental not-for-profit entities.

Use of Estimates

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

Indirect Cost Recoveries

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

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 and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired prior to July 1, 1975 and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to July 1, 1975 are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

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

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

Library books, periodicals, microfilms, and other library materials on computer storage devices are recorded at cost when purchased or fair market value at the date of donation.

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

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year, and all library additions of books, periodicals and microfilms.

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

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore, asset values in the investment in plant subgroup include such interest costs.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned and unearned student revenues. Unearned student revenues 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, other deposits, and student fee refunds. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable 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 various activities related to the University’s agricultural public service mission, including pesticide registration and licensing fees, livestock, poultry and health test fees, extension service fees, forest product sales, and youth camp fees. These unrestricted revenues are collectively labeled “Sales and Services of Educational Departments.”

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of library periodicals and advance payments for maintenance and service agreements.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts, and certain funds invested with Wachovia and Prudential Securities.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 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. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to the University's account at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

Some University accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

For the University's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less.

The Clemson Research Facilities Corporation has a management agreement with a bank whereby excess cash is invested in overnight investments. These investments are considered cash equivalents for financial reporting purposes.

Deferred Charges

Deferred charges connected with bond issuance costs are reported as an asset titled "Unamortized Issue Costs" in the retirement of indebtedness plant funds subgroup and are amortized over the lives of the bond issues on a straight-line basis. Amortization of these charges in the current year was $6,642.

Rebatable Arbitrage

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

Intraentity Transactions and Balances

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

Transfers between the University and its blended component units and among blended component units are reported as nonmandatory transfers. Similarly, receivables and payables between the University and its blended component units are reported as due from and due to other funds. Transfers and receivables/payables balances between the primary entity and its blended component units or among blended component units are classified separately as interfund transactions and balances.

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

Current accounts due to/from the same funds, between the University and its component units, or between component units are reported net on the balance sheet only if there is a legal right to the offset.

Comparative Amounts and Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the Balance Sheet and the Statement of Changes in Fund Balances present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except expenditure reimbursements and certain other intraentity transactions and balances between the University and its component units blended in the university funds have been eliminated.

Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all the information necessary for a fair presentation of financial position in accordance with generally accepted accounting principles.

To enhance comparability, some prior year amounts have been reclassified to conform with the current year financial statement presentation and have been restated for the matters discussed in Note 20.

Income Taxes

The University is a political subdivision of the State of South Carolina and is consequently exempt from federal and state income taxes.

The Clemson Research Facilities Corporation, a discretely presented component unit of the University, qualifies as an organization exempt from taxation under section 501(c)(3) of the Internal Revenue code. Consequently, it is also exempt from state income tax. The Corporation has obtained a favorable tax determination letter from the Internal Revenue Service dated July 22, 1992, and the Corporation believes that it continues to qualify and operate as designed.

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

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 5D and 23 of Part IA of the 1997-98 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1998:

STATE APPROPRIATIONS

	Educational and General	Public Service	Total
Original appropriation	$87,500,717	$ 47,356,852	$ 134,857,569
State Budget and Control Board Allocations:			
Employee Base Pay Increases and Related Employee Benefits	1,285,922	582,151	1,868,073
Employer Contributions	202,404	91,631	294,035
Appropriation allocations from the State Commission on Higher Education:			
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1997 Joint Resolution R223, H3402):	2,737,597	-	2,737,597
From 1996-97 Surplus Supplemental Appropriations for Additional Formula Funding (June 1997 Joint Resolution R223, H3401)	1,189,770	-	1,189,770
For Performance Funding	787,913	-	787,913
For Palmetto Fellows Scholarships	1,822,035	-	1,822,035
From the Children's Education Endowment Fund for Need-Based Grants	1,770,961	-	1,770,961
For Access and Equity Desegregation Funding (Proviso 18A.7)	19,360	-	19,360
Dayco Scholarships	3,000	-	3,000
Capital Reserve Fund Appropriations for:			
Calhoun Mansion (June 1997, Joint Resolution R223, H3402):	1,200,000	-	1,200,000
1996-97 Supplemental Appropriation (June 1997 Joint Resolution R223, H3401) for:			
Agri-Systems Productivity and Profitability	-	1,500,000	1,500,000

Long Leadership Center	-	500,000	500,000
Appropriation transfer to the Medical University of South Carolina (MUSC) for: Agromedicine	-	(279,721)	(279,721)
Total State Appropriation Revenue - Accrual Basis	98,519,679	49,750,913	148,270,592
Less: Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds	(3,595,996)	-	(3,595,996)
Less: Capital Projects Funding Reported in the Unexpended Plant Fund	(1,200,000)	(500,000)	(1,700,000)
Funding Reported in Unrestricted Current Funds	$ 93,723,683	$ 49,250,913	$ 142,974,596

The University received $1,200,000 in Capital Reserve Fund Appropriations to renovate and restore the Calhoun Mansion on campus. Another $500,000 in 1996-97 Supplemental Appropriation funding was provided for renovations to the Long Leadership Center in Aiken. These amounts will be reimbursed as expenditures occur. Accordingly, a receivable for this state appropriations revenue-restricted amount has been recorded in the unexpended plant fund.

In addition to the state appropriations revenue, the University received $15,792 from the Commission on Higher Education (CHE) for Dwight D. Eisenhower Scholarships which is reported as federal grant revenue in the restricted current fund. The University refunded $313 in prior year Centers of Excellence funds to CHE. The University also received $1,740 from CHE for the Higher Ed Awareness Program (HEAP) which is reported as state grant revenue in the restricted current fund.

NOTE 3.
CAPITAL IMPROVEMENT BONDS

In prior years, the State authorized funds for improvement 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. The University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant fund subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable" in the unexpended plant fund subgroup. The University is not obligated to repay these funds to the State. A summary of the activity in the balances available from these authorizations as of June 30, 1998, follows:

CAPITAL IMPROVEMENT BONDS

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
518 of 1980	$ 15,542,774	$ 15,502,741	$ 40,033	$ -
638 of 1988	11,380,173	10,715,792	148,145	516,236
522 of 1992	18,613,000	18,597,268	9,798	5,934
111 of 1997	27,000,000	-	30,772	26,969,228
Totals	$ 72,535,947	$ 44,815,801	$ 228,748	$ 27,491,398

NOTE 4.
BONDS PAYABLE, CERTIFICATES OF PARTICIPATION PAYABLE AND NOTES PAYABLE

Bonds Payable

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

BONDS PAYABLE

State Institution Bonds	Interest Rate	Maturity Dates	June 30, 1998 Balance	Debt Retired in Fiscal Year 1998
Bonds dated 5/01/92	5.40-7.40%	6/1/2007	$ 2,795,000	$ 230,000
Bonds dated 4/01/95	5.00-6.00%	6/1/2010	2,655,000	150,000
Bonds dated 6/01/97	4.50-5.50%	6/1/2010	8,090,000	410,000
			13,540,000	
Stadium Refunding Bonds				
Bonds dated 3/01/92	5.50-5.60%	5/1/2000	2,015,000	930,000
Plant Improvement Bonds				
Bonds dated 4/01/91	6.35-6.55%	5/1/2011	1,250,000	6,850,000
Plant Improvement Refunding Bonds				
Bonds dated 5/01/98	4.00-4.50%	5/1/2011	6,985,000	-
Revenue Bonds				
Bonds dated 6/01/98	4.50-4.75%	5/1/2012	28,740,000	1,395,000
			52,530,000	$ 9,965,000
Less: Amount included in unexpended plant funds			4,319,262	
Amount included in investment in plant			$ 48,210,738	

An additional $28,760,000 in debt was retired during the year on bonds paid in full or advanced refunded.

The University receives loan interest subsidies from the U. S. Department of Housing and Urban Development designated for the payment of interest on the Student and Faculty Housing Revenue Bonds. During the fiscal year ending June 30, 1998, the University received a subsidy for this purpose in the amount of $69,098.

Bonds issued by the University include certain restrictive covenants. State Institution Bonds are general obligation bonds of the State backed by the full faith, credit and taxing power of the State. Tuition and matriculation fees paid to the University up to the amount of annual debt requirements are pledged for the payment of principal and interest on these bonds. Stadium Refunding Bonds are secured by a pledge of the excess of Athletic Department revenues over expenditures, a seat tax on each ticket sold and a special student fee; the cumulative totals of these amounts must equal or exceed the annual principal and interest payment requirement. Plant Improvement Bonds are secured by a pledge of a special student fee designated for the improvement of plant and the fees are to equal or exceed 115 percent of the principal and interest requirement. Plant Improvement Refunding Bonds are limited obligations of the University payable solely from, and secured by a pledge of, the proceeds of the Plant Improvement Fee. Revenue Bonds are payable solely from and secured by a pledge of Net Revenues from the operation of facilities and Additional Funds.

The Stadium Refunding Bond has a debt service reserve in lieu of bond insurance. The University's debt service reserve requirement and balance at June 30, 1998, is as follows:

Bond	Reserve Requirement	Amount on Deposit
Stadium refunding bond (03/01/92)	$ 691,329	$ 696,345

State Institution Bonds dated December 1, 1978, can currently be redeemed at 102 percent of par until their maturity date. The State Institution Bonds are general obligations of the State of South Carolina and are secured as to principal and interest by a pledge of full faith, credit and taxing power of the State of South Carolina, and in addition, by a pledge of the tuition fees imposed by Clemson University.

The Stadium Refunding Bonds and Plant Improvement Refunding Bonds are not subject to redemption prior to maturity. After May 1, 2007, the Revenue Bonds can be redeemed at 101% through April 30, 2008 and from May 1, 2008 through April 30, 2009 at 100.5% of par. After April 30, 2009 they can be redeemed at par.

The series 1995A State Institution Bonds maturing on and after June 1, 2006, are subject to redemption in whole or if in part on June 1, 2005, and all subsequent payment dates in inverse chronological order of maturity, at the option of the State of South Carolina, at the following redemption prices: June 1, 2005 and December 1, 2005 at 102 percent; June 1, 2006 and December 1, 2006 at 101 percent; June 1 2007 and thereafter at par.

The series 1997B State Institution Bonds maturing on and after June 1, 2008, are subject to redemption at the option of the State, in whole or in part, but if in part, in inverse chronological order of maturity, on and after June 1, 2007, and on all subsequent bond payment dates at the following redemption prices: June 1, 2007 and December 1, 2007 at 102 percent; June 1, 2008 and December 1, 2008 at 101 percent; June 1, 2009 and thereafter at par.

On March 1, 1998 the University issued $6,985,000 in Plant Improvement Refunding Bonds with an average interest rate of 4.25%. Of the total issue cost**,** $6,950,408 was to advance refund $6,480,000 in Plant Improvement Bonds Series 1991 with an average interest rate of 6.28%. Related bond discounts totaled $34,592 and are included in the proceeds from refunding of bonds in the retirement of indebtedness fund subgroup. Related bond issue costs totaled $58,039**.** Bond issue costs are amortized over the life of the bonds using the straight-line method and are recorded in the retirement of indebtedness fund subgroup. The University engaged in advance refunding to reduce its debt service over the next thirteen years and to remove itself from certain restrictive covenants associated with the refunded bonds. As a result of the refunding, the University's total debt service payment over the next thirteen years will decrease by approximately $888,054 and the University will obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $677,441. The defeasance transactions are reported in the Retirement of Indebtedness and Investment in Plant fund subgroup.

The University recognized a loss of $117,795 on the defeasance of the Plant Improvement Bonds, Series 1991 which is calculated as follows:

PLANT IMPROVEMENT BONDS, SERIES 1991

Proceeds of new debt net of discount	$ 6,950,408
Other funds used	224,684
Issue costs	58,039
	7,233,131
Principal balance refunded	(6,480,000)
Accrued interest deposited	(635,336)
Total	$ 117,795

The Series 1998 Bonds mature as serial bonds on May 1, 2000 through May 1, 2011 and are not subject to redemption prior to their maturity.

On January 1, 1998 the University issued $30,135,000 in Revenue Bonds with an average interest rate of 4.63%. Of the total issue cost, $19,176,850 was to advance refund $3,270,000 in Auxiliary Facilities Revenue Bonds, Series 1991 and $14,835,000 in Student and Faculty Housing Revenue Bonds, Series M with a collective average interest rate of 6.52%. Related bond premiums totaled $86,850 and are included in the proceeds from refunding of bonds in the retirement of indebtedness fund subgroup. Related bond issue costs totaled $93,922. Bond issue costs are amortized over the life of the bonds using the straight-line method and are recorded in the retirement of indebtedness fund subgroup. The University engaged in advance refunding to reduce its debt service over the next fifteen years and to remove itself from certain restrictive covenants associated with the refunded bonds. As a result of the refunding, the University's total debt service payment over the next fifteen years will decrease by approximately $2,024,827 and the University will obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $1,621,944. The defeasance transactions are reported in the Retirement of Indebtedness and Investment in Plant fund subgroup.

In addition, the University used $11,094,772 including bond premiums of $49,772 and other University funds to currently refund $11,499,029 in bonds and notes payable. Related bond issue costs totaled $53,825. In connection with paying off these bonds, the University paid a premium of $204,000 which is included in interest expense.

The University recognized a loss of $213,067 on the defeasance of the Auxiliary Facilities Bonds, Series 1991 and the Student and Faculty Housing Bonds, Series M Bonds which is calculated as follows:

AUXILIARY FACILITIES BONDS, SERIES 1991 AND STUDENT FACULTY HOUSING BONDS, SERIES M

Proceeds of new debt net including premium	$ 19,176,850
Other funds used	340,732
Issue costs	93,922
	19,611,504
Principal balance refunded	(18,105,000)
Accrued interest deposited	(1,293,437)
Total	$ 213,067

The University purchased a bond insurance policy payable to the bond trustee for the Plant Improvement Refunding Bonds, Series 1998 and for the Revenue Bonds, Series 1998A. The insurance guarantees payment of principal and interest until all debt has been retired.

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

REVENUE BONDS

Year Ending June 30	Principal	Interest	Total
1999	$ 3,305,000	$ 1,451,185	$ 4,756,185
2000	3,375,000	1,292,660	4,667,660
2001	2,340,000	1,126,475	3,466,475
2002	2,445,000	1,018,250	3,463,250
2003	1,665,000	905,169	2,570,169
2004 through 2012	17,625,000	4,306,000	21,931,000
Total obligations	$ 30,755,000	$ 10,099,739	$ 40,854,739

Amounts including interest required to complete payment of the Plant Improvement bonds as of June 30, 1998, are as follows:

PLANT IMPROVEMENT BONDS

Year Ending June 30	Principal	Interest	Total
1999	$ 390,000	$ 428,326	$ 818,326
2000	485,000	353,897	838,897
2001	515,000	324,330	839,330
2002	570,000	292,383	862,383
2003	590,000	269,583	859,583
2004 through 2011	5,685,000	1,180,360	6,865,360

Total obligations	$ 8,235,000	$ 2,848,879	$ 11,083,879

Amounts including interest required to complete payment of the State Institution Bonds as of June 30, 1998, are as follows:

STATE INSTITUTION BONDS

	Principal	Interest	Total
Year Ending June 30			
1999	$ 835,000	$ 704,386	$ 1,539,386
2000	875,000	657,661	1,532,661
2001	930,000	608,191	1,538,191
2002	985,000	555,341	1,540,341
2003	1,030,000	500,481	1,530,481
2004 through 2010	8,885,000	1,865,694	10,750,694
Total obligations	$ 13,540,000	$ 4,891,754	$ 18,431,754

Receipts from tuition, matriculation fees and university fees legally designated solely for the purpose of debt retirement and renewals and replacements are recorded directly in the retirement of indebtedness and unexpended plant funds subgroups, respectively, as additions. Mandatory transfers from education and general revenues and from auxiliary enterprises revenues for debt retirement are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds.

In prior years the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 1998, $25,505,000 of bonds outstanding is considered defeased.

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

PRINCIPAL RETIREMENTS AND INTEREST EXPENDITURES

Bond Type	Principal	Interest
State Institution Bonds	$ 790,000	$ 743,752
Student and Faculty Housing Revenue Bonds	25,035,000	2,046,675 *
Stadium Refunding Bonds	930,000	152,935
Plant Improvement Bonds	6,850,000	884,117
Plant Improvement Refunding Bonds	-	85,256
Revenue Bonds	1,395,000	639,957
Auxiliary Facilities Revenue Bonds	3,270,000	329,948
Parking Facilities Revenue Bonds	455,000	14,301
Total	$ 38,725,000	$ 4,896,941

* Includes $204,000 early call premium

None of the interest was capitalized this fiscal year as part of the cost of construction in progress.

Arbitrage Liability Accrual

Arbitrage liability for the State Institution Bonds is $67,912 which includes $35,000 recorded as other deductions in the retirement of indebtedness subgroup during the past fiscal year. Ninety percent of the liability is required to be rebated to the federal government no later than 60 days after April 26, 2000. Arbitrage liability for the Stadium Refunding Bonds, Series 1992, is $5,417. This liability balance of $5,417 represented current year other deductions in the retirement of indebtedness subgroup.

Certificates of Participation Payable — Discretely Presented Component Unit

In May 1990, Clemson Research Facilities Corporation entered into an agreement to issue $5,186,862 of Certificates of Participation Series 1990. The certificates consist of $3,370,000 of current interest serial certificates and $1,816,862 of capital appreciation serial certificates with a total maturity value of $5,560,000. The proceeds of the certificates were used to construct a research facility. The certificates represent undivided proportionate interests in the lease rental payments to be made by Clemson University pursuant to a building lease agreement. The certificates are payable annually from 1992 to 2011 with interest ranging from 6.25 percent to 6.95 percent on the current interest serial certificates and yield to maturity ranging from 7.05 percent to 7.35 percent on the capital appreciation serial certificates.

The certificates are secured by an absolute and unconditional obligation of Clemson University subject to an event of nonappropriation or an event of cancellation and pledged monies as provided by the trust agreement. The certificates provide for prepayments beginning on or after July 1, 1997 at prices ranging from 100 percent to 105 percent of the certificate principal amounts. The amount outstanding at June 30, 1998 was $4,566,320. During the current fiscal year $395,000 in principal and $104,519 in cash interest payments were made.

The aggregate scheduled debt service payments on the current interest serial certificates are as follows:

DEBT SERVICE-CERTIFICATES OF PARTICIPATION PAYABLE

	Principal	Interest	Total
Year Ending June 30			
1999	$ 420,000	$ 77,210	$ 497,210
2000	445,000	47,905	492,905
2001	475,000	16,388	491,388
Total obligations	$ 1,340,000	$ 141,503	$ 1,481,503

The scheduled maturity of the capital appreciation serial certificates is $510,000 in 2001 and $505,000 in each year from 2002 through 2011.

Notes Payable

At June 30, 1998, notes payable included in the investment in plant fund consisted of the following:

NOTES PAYABLE

	Interest	Maturity	Amount
South Carolina Higher Education Note dated 12/15/95	7.000%	12/15/1998	$ 6,784
First Union National Bank Note dated 1/30/98	4.796%	2/1/2005	330,000
Total			$ 336,784

During January, 1998, the University entered into a loan agreement with First Union National Bank whereby First Union National Bank loaned the University $330,000 to partially pay for a new fire truck. In addition, the University prepaid $145,000 of the purchase price with available funds in the unexpended plant funds. The sum of the $330,000 loaned funds and the $145,000 prepaid funds is recorded in the unexpended plant funds subgroup as an asset titled “Deposit on undelivered asset.” The University will pay an additional $23,603 upon delivery of the fire truck in fiscal year 1999.

The loan bears interest at 4.796% per annum on the unpaid balance. Principal and interest is payable in semi-annual installments of $28,028 for 14 years.

Future payments on notes payable are to be funded from future operating revenues.

The aggregate debt service payments due on notes payable at June 30, 1998, are as follows:

DEBT SERVICE-NOTES PAYABLE

	Principal	Interest	Total
Year Ending June 30			
1999	$ 43,989	$ 15,819	$ 59,808

2000	46,194	13,614	59,808
2001	44,759	11,297	56,056
2002	46,932	9,124	56,056
2003	49,210	6,846	56,056
2004 and thereafter	105,700	6,412	112,112
Total obligations	$ 336,784	$ 63,112	$ 399,896

Total principal paid on notes payable was $922,267 for the year ended June 30, 1998. Total interest expense for notes payable was $33,587.

NOTE 5.
LEASE OBLIGATIONS

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

Future commitments for capital leases and for operating leases (which here includes installment purchase agreements) having remaining terms in excess of one year as of June 30, 1998, were as follows:

CAPITAL AND OPERATING LEASE COMMITMENTS

	Capital Leases			Operating Leases
Year ending June 30:	Real Property	Equipment	Total	Real Property
1999	$ 1,110,626	$ 29,377	$ 1,140,003	$ 132,142
2000	1,110,626	29,377	1,140,003	132,142
2001	1,110,626	-	1,110,626	88,618
2002	1,110,626	-	1,110,626	-
2003	1,110,739	-	1,110,739	-
2004 through 2012	6,776,773	-	6,776,773	-
Total minimum lease payments	12,330,016	58,754	12,388,770	$ 352,902
Less: Interest	4,074,973	4,857	4,079,830	
Less: Executory costs	369,173	-	369,173	
Principal outstanding - Clemson University	$ 7,885,870	$ 53,897	$ 7,939,767	

Capital Leases

Capital leases are generally payable in installments ranging from monthly to annually from unrestricted current fund sources and have terms expiring in various years between 1999 and 2011. Expenditures for fiscal year 1998 were $1,177,418, of which $626,870 represented interest and $26,345 represented executory costs. Total principal paid on capital leases was $524,203 for the fiscal year ended June 30, 1998. Interest rates range from 7.50 percent to 7.58 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 1998:

Land	$ 122
Buildings	11,116,135
Equipment	109,157
Totals	$ 11,225,414

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.

The University had two capital leases for research facilities with related entities in the current fiscal year. In June 1991, the University entered into a capital lease of $5,186,861 at 7.58 percent with the Clemson Research Facilities Corporation (CRFC) a discretely presented component unit, whereby the University leases a building for a twenty year period that began June 1991, and expires June 2011 (Note 21). In March 1988, the University entered into a capital lease of $925,000 at 7.57 percent with the Clemson University Research Foundation (CURF) whereby the University leases land and a building for a twenty year period that began April 1988, and expires May 2008 (Note 15). The outstanding liability at June 30, 1998, on these capital leases is $4,077,794 and $614,658 respectively. The University at its option may terminate the lease and purchase CURF's interest for the unamortized principal balance and the payment of $1.

The University also has an additional capital real property leases with an unrelated party. In December 1986, the University entered into a capital lease of $5,004,395 at 7.5 percent for a computer building whereby the University leases a building for a twenty-year period that began December 1987, and expires December 2007. The University may cancel the lease agreement at the end of any fiscal year when sufficient appropriations, revenues, income, grants or other funding sources are not available. However, in the event of cancellation, the University has agreed not to purchase, lease or rent similar facilities for one year following such cancellation. The University is responsible for all operating costs such as repairs, utilities and insurance for this lease. The outstanding liability at June 30, 1998 for this capital lease was $3,193,418.

Operating Leases

The University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 1999 through 2001. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding. 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.

In 1997, the University entered into a real property operating lease with the Clemson University Research Foundation, a related party, for office space from 1997 through 2001 for annual rentals of $99,092. The agreement does not contain a renewal option. Under this agreement, the lessor paid the lessee $110,069 in the current year.

Noncancellable operating lease expenditures in 1998 were $230,503 for real property and $48,000 for equipment. The University reports these costs in the unrestricted and restricted current funds functional expenditure categories.

Besides the real property operating lease with the Clemson University Research Foundation mentioned above, the University had no other operating leases with related parties in the current fiscal year.

NOTE 6.
NONMANDATORY TRANSFERS

Plant Funds

Tuition fees and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into general capital improvements funding accounts. The University reports balances related to these funding accounts in the unexpended plant funds as unrestricted—designated fund balances. The funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by law. As needed, the University transfers monies from the general funding accounts to specific capital project accounts. It reports the unexpended balances in these project accounts in the unexpended plant fund as restricted fund balances.

For State Institution Bonds issued by the State of South Carolina on behalf of Clemson University after 1986, the State Treasurer, without request from the University, transfers these qualified funds into a University capital projects funding account in the unexpended plant fund. For Plant Improvement Bonds issued by Clemson University, the State Treasurer transfers funds qualified because of the maintenance of minimum balances into a capital projects funding accounts in the unexpended plant fund upon a written request by the University. For the fiscal year ending June 30, 1998, the State Treasurer transferred $1,473,787 originally designated for debt service for State Institution Bonds, and $227,336 originally designated for debt service for Plant Improvement Bonds from the retirement of indebtedness fund to separate general capital improvement accounts in the University's unexpended plant fund.

In turn, the University transferred $1,526,968 from its general capital improvement account derived from State Institution Bonds to numerous State approved capital improvement projects also accounted for in the unexpended plant fund. Previously transferred funds totaling $135,644, originally derived from Plant Improvement Bonds, were returned to the capital improvement "holding" account in the unexpended plant fund upon completion of a state approved capital project. As of June 30, 1998, the cash balances for the two general capital improvement accounts were $6,203,969 and $3,632,460, respectively, for the State Institution Bond account and the Plant Improvement Bond account.

Current Restricted and Endowment Funds

The Uniform Management of Institutional Funds Act was adopted by South Carolina Act #390 – Section 34-6-10 to 34-8-80 and effective July 1, 1990. The Uniform Act allows trustees and managers of eleemosynary institutions a standard for prudent use of appreciation of uninvested funds; specific authority to delegate investment decisions as well as a standard guide to governing boards in the exercise of their duties under the act.

In fiscal year 1998, based on the Uniform Management of Institutional Funds Act, the Clemson University Board of Trustees adopted changes in the way University endowment funds are managed and spent. Expenditures are based on the carrying value from the previous fiscal year, at a percentage set by the Board. For fiscal year 1998, this rate was 4.75%. All cash balances in excess of the amounts needed to fund current year budgets are invested at higher long-term rates with the State Treasurer.

Consequently, at the end of the fiscal year, accumulated earnings in excess of fiscal year 1998 budgets totaling $4,154,272 were transferred from the restricted current funds to the quasi endowment fund.

NOTE 7.
RISK MANAGEMENT

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 have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

(1) Claims of State employees for unemployment compensation benefits (Employment Security Commission);
(2) Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
(3) Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
(4) Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

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

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

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

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

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

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through commercial insurers for employee fidelity bond insurance. All employees are covered for $500,000 for Commercial Crime. This coverage includes the following:

(1) Blanket employee dishonesty;
(2) Forgery/alterations;
(3) Theft, disappearance of money and security;
(4) Robbery and safe burglary;
(5) Premises burglary;
(6) Computer fraud; and
(7) Premises theft and robbery outside the premises.

In addition, the Chief Financial Officer is covered for $200,000 under a public official bond, and the postmaster is covered under a performance bond for $75,000. Both the Director of Accounting for Related Organizations and the Director of Gifts and Endowments are covered by a $2,000,000 bond. The Director of Business Affairs is also covered by a $2,000,000 bond.

The University has recorded insurance premium expenditures and expenditures for deductibles in the applicable functional expenditure categories of the unrestricted current fund.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, and policy limits for all coverage to a State or commercial insurer. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1998, based on the requirements of GASB Statement No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 1998, and the amount of the loss is reasonably estimable.

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

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.

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 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which includes a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The University’s actual contributions to the SCRS for the three most recent fiscal years ending June 30, 1998, 1997 and 1996 were approximately $9,444,000, $9,256,000, and $9,135,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $187,620 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included a 1.916 percent surcharge. The University’s actual contributions to the PORS for the years ending June 30, 1998, 1997, and 1996 were approximately $220,000, $219,000, and $214,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $4,266 and accidental death insurance contributions of $4,266 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

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

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

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

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

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

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

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $2,256,306 (excluding the surcharge) from the University as employer and $1,793,095 from its employees as plan members. In addition, the University paid $44,825 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 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 18,000 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of $8,491,487 for the year ended June 30, 1998. As discussed in Note 8, the University paid $3,010,086 applicable to the 1.916 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 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 accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

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

NOTE 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, 1998:

INVENTORIES

Category	Method		
Maintenance supplies	Moving weighted average	$	389,590
Telecommunications	Last-in, first-out		229,952
Janitorial and auto supplies	Moving weighted average		77,200
Printing and graphics supplies	Moving weighted average		69,928
Office supplies and university forms	Moving weighted average		52,472
Other	Moving weighted average		44,077
Post office	Specific identification		13,401
		$	876,620

NOTE 12.
ACCOUNTS, STUDENT LOAN, AND OTHER RECEIVABLES

Allowances for doubtful accounts of $406,000 are established for unrestricted current fund accounts receivable based on credit losses experienced in prior years and evaluations of current portfolios.

With minor exceptions, losses for loans to students are not estimated or recorded in allowances for uncollectible accounts. At the time a loan is considered uncollectible it is charged to the principal of the fund from which the loan was made. Any account receivable written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed material.

Details of accounts receivable, grants and contracts receivable, and state appropriations receivable are indicated below:

RECEIVABLES

	Unrestricted Current Funds	Restricted Current Funds	Endowment And Similar Funds	Unexpended Plant Funds	Total
Accounts Receivable					
Students/Scholarships	$ 1,132,399	$ -	$ -	$ -	$ 1,132,399
Royalties	575,092	-	-	-	575,092
Computer services	612,644	-	-	-	612,644
Auxiliaries	560,200	-	-	-	560,200
Professional development courses	458,482	-	-	-	458,482
Legal settlement	-	-	-	656,009	656,009
Other	202,682	11,486	7,399	-	221,567
	$ 3,541,499	$ 11,486	$ 7,399	$ 656,009	$ 4,216,393

	Unrestricted Current Funds	Restricted Current Funds	Unexpended Plant Funds	Total
Grants And Contracts Receivable				
Federal grants and contracts	$ 849,318	$ 7,679,501	$ 87,334	$ 8,616,153
State grants and contracts	-	441,853	-	441,853
Local grants and contracts	-	37,413	-	37,413
Private/other grants and contracts	-	2,158,459	-	2,158,459
	$ 849,318	$ 10,317,226	$ 87,334	$ 11,253,878

	Unexpended Plant Funds
State Appropriations Receivable	
Calhoun Mansion Restoration	$ 1,200,000
Camp Hope Outdoor Laboratory	556,796
Plant Industries Research Complex	12,069
	$ 1,768,865

NOTE 13.
CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

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 3 to 4 years at an estimated cost of $100,711,906. This $100,711,906 amount includes estimated costs of $77,601,000 for capital projects currently in progress plus $23,110,906 estimated costs for other capital projects listed as Buildings and Utilities. Of the total cost, $68,539,968 was unexpended at June 30, 1998. Of the total expended through June 30, 1998, the University has capitalized in the current fiscal year substantially complete and in use projects costing $2,234,274 in the applicable plant fund categories. Of the unexpended balance at June 30, 1998, the University had remaining commitment balances of $11,990,730 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of June 30, 1998 was $251,154. Capital projects at June 30, 1998, which constitute construction in progress that are to be capitalized when completed are listed below.

CONSTRUCTION IN PROGRESS

Project Number	Project	Estimated Cost	Amount Expended
9515	Animal Diagnostic Lab Building - Construction	$ 5,108,000	$ 2,341,323
9518	Plant Industries Research Complex and Other	17,380,000	453,727
9605	East Campus Activities Center	17,556,000	6,462,112
9606	East Campus Housing - Phase II	12,450,000	12,449
9666	Redfern Health Center	995,000	666,780
9696	Central Energy Facility	10,000,000	67,435
9687	Littlejohn Coliseum/Annex	7,500,000	269,380
9693	Recycle/Maintenance Building Construction	312,000	96,407
9694	Athletic Facilities Construction/Renovation	6,300,000	169,503
	Total	$ 77,601,000	$ 10,539,116

Non-Capitalized

The amount expended includes only capitalized project expenditures and capitalized interest on construction debt, and does not include any noncapitalized expenditures.

At June 30, 1998, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total $92,988,549. This amount includes costs incurred to date of $72,806,449 at June 30, 1998 and estimated cost to complete of $20,182,100. The University has remaining commitment balances with certain parties related to these projects of $2,600,575. Retainages payable on the non-capitalized projects as of June 30, 1998 was $152,318.

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

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. All deposits and investments of IPTAY, the University's fully blended component unit, are also under the control of the State Treasurer, who has sole authority for investing these funds. Deposits and investments of the Clemson Research Facilities Corporation, the University's discretely presented component unit, are deposited in a financial institution and are not under the control of the State Treasurer.

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

RECONCILIATION OF DEPOSITS AND INVESTMENTS

Balance Sheet		Footnotes	
Cash and cash equivalents	$ 137,313,187	Cash on hand	$ 222,743
Investments held by State Treasurer	154,439	Deposits held by State Treasurer	136,303,918
Other investments	7,166,260	Other deposits	786,526
		Investment held by State Treasurer	154,439
		Other investments	7,166,260
Total before component unit addition	144,633,886	Total before component unit addition	144,633,886
CRFC - Cash and cash equivalents	602,938	CRFC - Other deposits	602,938
Total after inclusion of component unit	$ 145,236,824	Total after inclusion of component unit	$ 145,236,824

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.

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 agent 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. In the University's accounting records, $2,805,585 of the $136,303,918 identified above as "Deposits held by State Treasurer", is attributable to unrealized gains.

As disclosed in Note 4, retirement of indebtedness funds include $696,345 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

Other Deposits

The University's other deposits at year-end, and the deposits of the Clemson Research Facilities Corporation (CRFC), its discretely presented component unit, were entirely covered by federal depository insurance or collateral held by custodial banks of both entities in their respective names, except $24,862 in CRFC deposits which were uninsured and uncollateralized.

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

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

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

OTHER DEPOSITS BY RISK CATEGORY

	Category 1	Category 2	Category 3	Bank Balance	Reported Amount	Funds
Insured (FDIC)	$ 728,780	$ -	$ -	$ 728,780	$ 684,533	Unrestricted current
Insured (FDIC)	1,214	-	-	1,214	1,214	Restricted current
Insured (FDIC)	80,811	-	-	80,811	80,811	Endowment and Similar
Insured (FDIC)	19,968	-	-	19,968	19,968	Agency
Total before component unit addition	830,773	-	-	830,773	786,526	
Insured (FDIC)	100,000	-	-	100,000	100,000	Component unit - CRFC
Collateralized	-	469,775	-	469,775	469,775	Component unit - CRFC
Uninsured and uncollateralized	-	-	24,862	24,862	33,163	Component unit - CRFC
Total after inclusion of component unit	$ 930,773	$ 469,775	$ 24,862	$ 1,425,410	$ 1,389,464	

Investments Held by State Treasurer

The accounts classified as "Investments Held by State Treasurer" in the financial statements comprise investments held for the University and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities. Investments consist of Agricultural College stock with a carrying amount of $95,900 and Perpetual stock with a carrying amount of $58,538 held by the State Treasurer as Trustee in Perpetuity on which they are required to pay the University 6 percent per year. Since there is no readily determinable fair value for these investments, they have been assigned a fair value equal to their historical cost value.

Other Investments

The University also has investments in common stocks, bond and equity investment funds, government bonds, corporate bonds, and mutual funds as authorized by numerous donors. All of the University's investments are held in the endowment and similar funds. The bond and equity investment funds with a fair value of $3,152,853, are held by Wachovia, Inc., as trustee in accordance with the endowment agreement specified by the donor. Certain mutual funds with a fair value of $163,026 are held by Charles C. Schwab as custodian. All other University investments, not held by the State Treasurer with a fair value of $3,850,381, are held by Prudential Securities as custodian.

"Other Investments" are stated at fair value and include unrealized appreciation of $4,546,638. Purchases and sales are accounted for on the trade date. Both unrealized and realized gains and losses on investments have been recorded in the fund holding the investment. Earnings are recorded on an accrual basis.

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

INVESTMENTS BY RISK CATEGORY

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Endowment and similar funds:					
Common stocks	$ -	$ 3,662,334	$ -	$ 3,662,334	$ 3,662,334
Corporate bonds	-	10,485	-	10,485	10,485
Government bonds	-	93,079	-	93,079	93,079
Total categorized investments	$ 0	$ 3,765,898	$ 0	3,765,898	3,765,898
Equity investment funds				1,629,732	1,629,732
Bond investment funds				1,523,121	1,523,121
Mutual funds				247,509	247,509

Total investments	$ 7,166,260	$ 7,166,260

The investment types listed above include all investment types in which monies were held throughout the fiscal year.

NOTE 15.
RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the Clemson University Foundation, the Clemson University Research Foundation, the Clemson University Real Estate Foundation, Inc., and the Clemson University Continuing Education and Conference Center Complex Corporation. The financial statements of these entities are audited by independent auditors retained by the various related parties.

Also, the Clemson Advancement Foundation For Design & Building (formerly the Clemson Architectural Foundation) and the Clemson Engineering Foundation exist to benefit the students, faculty and programs of the College of Architecture, Arts & Humanities and the College of Engineering and Sciences respectively. The financial statements of the Clemson Advancement Foundation For Design & Building are audited by an independent auditor bi-annually. The financial statements of the Clemson Engineering Foundation are examined by the University's Internal Auditors on a periodic basis.

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 its related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the related parties described in this note. The University excluded these related parties 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 related parties may become component units of the University and/or part of the financial reporting entity.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and Clemson University.

Clemson University Foundation

The Clemson University Foundation (Foundation) is a separately chartered corporation organized exclusively to promote the development and welfare of Clemson University in its educational and scientific purposes. The Foundation's activities are governed by its Board of Directors.

Additions from the Foundation recorded in the restricted current fund for the fiscal year ending June 30, 1998 were $4,861,230. A total of $131,129 was also recorded as revenues and expenditure reimbursements in the unrestricted current funds. The Foundation transfers funds earmarked from private contributions to the University to support University programs, such as scholarships, fellowships, professorships, and research. The Foundation also 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. Equipment donated by the Foundation to the University totaled $237,125, and was recorded as gifts in the investment in plant fund. The Foundation reimbursed the University's unrestricted current fund $236,651 for salaries for time devoted by University employees to the Foundation.

The Foundation has committed $4.1 million toward certain active building projects of the University. The University received $1,171,986 in the unexpended plant fund during the fiscal year ending June 30, 1998, and $6,252,833 in prior years for both currently active and completed building projects. These amounts were recognized as revenue when received.

Clemson University Research Foundation

The Clemson University Research Foundation (CURF) is a separately chartered corporation established to solicit research grants and contracts, then contract the University to perform the research. CURF's activities are governed by its Board of Directors.

Additions from CURF recorded in the restricted current fund for the fiscal year ending June 30, 1998 were $952,289. The University performs research and development under performance agreements for CURF, and receives payment for all direct and indirect costs which are incurred in accordance with the terms of the performance agreements. These funds are primarily recorded as private gifts, grants and contracts. Restricted current fund grants and contracts receivable includes $314,417 due from CURF at June 30, 1998. Equipment donated by CURF to the University totaled $620,794, and was recorded in the investment in plant fund.

Also, the University made $101,784 in capital lease payments to CURF for lease of a building and land and $110,069 in operating lease payments for office space. (Note 5) CURF reimbursed the University's unrestricted current fund $134,151 for salaries for time devoted by University employees to the Clemson University Research Foundation.

Clemson University Real Estate Foundation

The Clemson University Real Estate Foundation, Inc., is a separately chartered entity organized to hold, and invest acquired real estate property. The Real Estate Foundation's actions are governed by its Board of Directors. This entity had no transactions with the University for the fiscal year ending June 30, 1998, and did not significantly require the time or services of any University employees.

Clemson University Continuing Education And Conference Complex Corporation

The Clemson University Continuing Education and Conference Complex Corporation (Finance Corporation), is a separately chartered corporation established in September, 1993, to construct, operate and manage the golf course and hotel components of the Clemson University Continuing Education and Conference Complex. The Finance Corporation's actions are governed by its Board of Directors.

Construction of the golf course was completed in fiscal year 1996. Construction of the hotel began in July, 1997, and was due to be completed in July, 1998. No State funds were utilized in the construction of the golf course or the hotel. The Finance Corporation reimbursed the University's unrestricted current fund $9,389 for salaries for time devoted by University employees to the Finance Corporation.

Clemson Advancement Foundation For Design & Building

The Clemson Advancement Foundation For Design & Building is a separately chartered eleemosynary corporation established to support and enrich the professional programs in the College of Architecture, Arts & Humanities. The Design & Building Foundation's actions are governed by its Board of Trustees.

Additions from the Design & Building Foundation recorded in the restricted current fund as private gift and grant revenues for the fiscal year ending June 30, 1998 were $339,539. The Design & Building Foundation transfers funds to support University research and public service projects, and to reimburse academic support expenditures. In addition, the University's financial statements reflect $124,960 in unrestricted current fund expenditures to reimburse the Design & Building Foundation for the secretary, professors, and certain maintenance costs incurred on the villa at the Charles E. Daniel Center for Building Research and Urban Studies in Genoa, Italy, which is owned by the Design & Building Foundation.

Clemson Engineering Foundation

The Clemson Engineering Foundation is a separately chartered entity established to improve engineering education and Professional Engineering in South Carolina by furnishing financial and other assistance to the College of Engineering of Clemson University. The Engineering Foundation's actions are governed by its Board of Directors.

The entity had no transactions with the University for the fiscal year ending June 30, 1998, and did not significantly require time or services of any University employees.

The most recent assets, liabilities and fund balances information summarized from the financial statements of Clemson University's related parties follows:

RELATED PARTIES FINANCIAL STATEMENTS

	Clemson University Foundation	Clemson University Research Foundation	Clemson University Real Estate Foundation	Clemson University Continuing Education and Conference Complex Corporation	Clemson Advancement Foundation For Design & Building	Clemson Engineering Foundation
	For the Year Ended 6/30/98 (Audited)	For the Year Ended 6/30/98 (Audited)	For the Year Ended 6/30/98 (Audited)	For the Year Ended 6/30/98 (Audited)	For the Year Ended 12/31/97 (Audited)	For the Year Ended 6/30/98 (Unaudited)
Assets						
Current funds	$ 19,359,874	$ 9,634,366	$ 1,072,419	$ 10,231,913	$ 604,321	$ 193,748
Endowment and similar funds	167,946,628	-	-	-	2,140,405	-
Plant funds	-	-	-	-	2,124,686	-
Agency funds	2,069,875	-	-	-	-	-
Total assets	$ 189,376,377	$ 9,634,366	$ 1,072,419	$ 10,231,913	$ 4,869,412	$ 193,748
Liabilities and Fund Balances						
Liabilities:						
Current funds	$ 9,855,618	$ 6,132,900	$ 41,819	$ 8,725,647	$ 69,920	$ -
Plant funds	-	-	-	-	66,233	-
Agency funds	2,069,875	-	-	-	-	-
Total liabilities	11,925,493	6,132,900	41,819	8,725,647	136,153	-
Fund Balances:						
Current funds	9,504,256	3,501,466	1,030,600	1,506,266	570,401	193,748
Endowment and similar funds	167,946,628	-	-	-	2,140,405	-
Plant funds	-	-	-	-	2,022,453	-
Total liabilities and fund balances	$ 189,376,377	$ 9,634,366	$ 1,072,419	$ 10,231,913	$ 4,869,412	$ 193,748

NOTE 16.
TRANSACTIONS WITH STATE ENTITIES

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

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

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

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

The University receives passed through federal funds from other State agencies, and in turn, subcontracts federally sponsored research and public service activities to various State entities. The University also receives State funds from various other State agencies for sponsored research and public service projects.

The University provided no significant services free of charge to any State agency during the fiscal year; however, the University provided computer services and information systems development for a fee to other State agencies during the fiscal year. Total fees received were $5,183,581.

Also, the University collected and remitted $185,213 in seed and pesticide certification and registration fees to the State General Fund.

NOTE 17.
PLEDGES

Pledges for gifts which will benefit the University are made directly to the IPTAY Scholarship Fund, a blended component unit of the University, and to the Clemson University Foundation and the Clemson University Real Estate Foundation, which are related parties of the University. IPTAY Scholarship Fund pledges are recorded as revenue to the University as collected. Pledges to the Clemson University Foundation and to the Clemson University Real Estate Foundation will be recorded as revenue to the University only after certain payment conditions for scholarships, construction and other costs have been met. Accordingly, it is not practicable to estimate the net realizable value of the uncollected pledges of the Foundations.

Amounts collected by the IPTAY Scholarship Fund are restricted to providing athletic scholarships for students of Clemson University and to provide for such other needs of the University as directed by the IPTAY Board of Directors. IPTAY operates under the modified cash basis of accounting and does not recognize pledged contributions until the contributions are actually received. The amount of uncollected pledges, the timing of collections, and the estimated net realizable value of amounts due to the IPTAY Scholarship Fund was not readily determinable at fiscal year end.

Pledges for construction projects are used as the basis for commitments from the Clemson University Foundation to reimburse the University for construction costs incurred for certain building projects (Note 15).

NOTE 18.
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. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

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

NOTE 19.
DEFERRED REVENUES

Deferred revenues consist primarily of athletic ticket sales and related fees and unearned student revenues for the second summer session and fall semester. These monies were collected in advance and were not earned at June 30, 1998.

Athletic sales and related event receipts include: advance sales of football tickets, executive box rental fees, and program advertising fees. Unearned student revenues consists mainly of student tuition and fees, room and board, and other fees related to the second summer session. Also included are admission fees for the fall semester. 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.

As South Carolina's federal land-grant University, Clemson receives annual appropriations under the Hatch Act and the Smith Lever Act for agricultural extension and research programs. At fiscal year end, $275,900 in Hatch Act funds and $5,077 in Smith Lever Act funds were on deposit in State Treasurer's bank accounts.

Fees collected in advance for professional development and continuing education courses, federal agricultural appropriations, and various departmental accounts comprise the remaining balance of deferred revenues.

A summary listing of deferred revenues follows:

Athletic event receipts - fall semester	$ 6,869,234
Academic and other fees - second summer semester	2,776,636
Other auxiliary fees - second summer session	999,061
Professional development fees	395,074
Admission fees - fall semester	309,000
Federal agricultural appropriations	280,977
Other	99,011
Totals	$ 11,728,993

NOTE 20.
ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

ACCOUNTING CHANGES
Fixed Asset Capitalization Limit
In prior years, the University capitalized major additions to plant assets and qualifying equipment with a unit value in excess of $500 and a useful life in excess of one year. Effective July 1, 1997, the University changed its equipment definition and raised its valuation level to capitalize those items with a unit value in excess of $5,000 and having a useful life in excess of one year. The statement of changes in fund balances reports a "Reduction resulting from change in asset capitalization policy" deduction of $63,640,252 in the investment in plant funds subgroup to remove capitalized assets on hand July 1, 1997, which did not meet the new capitalization limit.

PRIOR PERIOD ADJUSTMENTS
Accounting for Investments at Fair Value
Effective July 1, 1997, Clemson University implemented Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools.* This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. As a participant in the State's internal cash management pool, the University has been allocated unrealized gains to reflect its pro rata share of the pool. Consequently, the University has restated cash and cash equivalents and beginning fund balances as of July 1, 1996, for amounts totaling $(5,857) for changes resulting from adoption of Statement No. 31. In addition to participation in the State's internal cash management pool, the University has certain other investments that represent gifts received from donors. Other investments and beginning fund balances in the endowment and similar funds in the amount of $3,087,600 have been restated as of July 1, 1996, for changes resulting from the adoption of Statement No. 31. These changes to beginning fund balances as of July 1, 1996, are disclosed in the following schedule:

	Beginning Fund Balances as of July 1, 1996		
	As Previously Reported	Restatement Adjustment	As Restated
Unrestricted current funds	$ 17,020,412	$ (74,421)	$ 16,945,991
Restricted current funds	13,349,759	123,807	13,473,566
Loan funds	6,651,472	(6,964)	6,644,508
Endowment and similar funds	24,248,729	3,087,600	27,336,329
Unexpended plant funds	22,969,261	(49,109)	22,920,152
Retirement of indebtedness funds	725,189	830	726,019
Investment in plant	437,102,009	-	437,102,009
CRFC	(14,290)	-	(14,290)
	$ 522,052,541	$ 3,081,743	$ 525,134,284

Statement No. 31 allows interest and investment income, and both realized and unrealized gains to be reported on a single financial statement line. For all funds except the unrestricted current funds, these items are reported as "Investment income – restricted" on the Statement of Changes in Fund Balances. Unrestricted current fund earnings are initially reported on the Statement of Current Funds Revenues, Expenditures, and Other Changes as "Sales and services of auxiliaries", or as "Other sources", and are reported in the Statement of Changes in Fund Balances under the title "Unrestricted current fund revenues". Accordingly, $1,377,452 in unrealized appreciation is reflected in the University's Statement of Changes in Fund Balances for the year ended June 30, 1997.

Waivers and Abatements
In fiscal year 1998, systems were enhanced to allow for an exact student-by-student calculation of undergraduate and graduate tuition waivers and abatements. These waivers and abatements, which are mainly offered to out-of-state graduate students and graduate assistants, were recorded in prior years based on estimates of the number of hours taken by each student.

As a result, it was determined that the prior year amounts recorded in student fees and scholarships and fellowships expenditures were overstated by $1,798,025. The prior year's comparative amounts have been restated to correct these errors.

EFFECTS OF CHANGES ON OPERATIONS AND FINANCIAL POSITION

	1997		
	As Previously Reported (or Adjusted)	Restatement Adjustment	As Restated
Unrestricted Current Funds			
Financial position changes:			
Cash and cash equivalents	$ 54,273,094	$ 140,413	$ 54,413,507
Fund balance, ending	24,440,255	140,413	24,580,668
Financial activities changes (Statement of Current Funds):			
Revenues:			
Student fees	74,067,556	(1,798,025)	72,269,531
Sales and services of auxiliary enterprises	55,794,140	135,064	55,929,204
Other sources	8,620,645	5,349	8,625,994
Expenditures and mandatory transfers:			
Scholarships and fellowships	24,091,189	(1,798,025)	22,293,164
Restricted Current Funds			
Financial position changes:			
Cash and cash equivalents	$ 6,842,192	$ 288,990	$ 7,131,182
Fund balance, ending	17,272,317	288,990	17,561,307
Operations changes (Statement of Changes):			
Revenues and other additons:			
Investment income - restricted	1,184,913	288,366	1,473,279
Expenditures and other deductions:			
Realized losses on investments - restricted	624	(624)	—
Financial activities changes (Statement of Current Funds):			
Other Transfers and Additions/(Deductions):			
Excess of restricted receipts over transfers to revenues	3,750,586	288,366	4,038,952
Administrative and other costs and losses	(29,708)	624	(29,084)
Loan Funds			
Financial position changes:			
Cash and cash equivalents	$ 1,095,274	$ 13,778	$ 1,109,052
Fund balance, ending	6,889,156	13,778	6,902,934
Operations changes (Statement of Changes):			
Revenues and other additions:			
Investment income - restricted	100,860	13,778	114,638
Endowment and Similar Funds			
Financial position changes:			
Other investments	$ 5,474,102	$ 777,652	$ 6,251,754
Fund balance, ending	29,431,833	777,652	30,209,485
Operations changes: (Statement of Changes)			
Revenues and other additions:			
Investment income - restricted	142,378	774,789	917,167
Expenditures and other deductions:			
Realized losses on investments - restricted	2,863	(2,863)	—

Unexpended Plant Funds

Financial position changes:			
Cash and cash equivalents	$ 31,371,241	$ 148,098	$ 31,519,339
Fund balance, ending	52,827,029	148,098	52,975,127
Operations changes (Statement of Changes):			
Investment income - restricted	877,784	148,098	1,025,882

Retirement of Indebtedness Funds

Financial position changes:			
Cash and cash equivalents	$ 1,195,274	$ 8,522	$ 1,203,796
Fund balance, ending	800,185	8,522	808,707
Operations changes (Statement of Changes):			
Investment income - restricted	168,827	8,522	177,349

Affected Amounts in the Totals Column

Balance Sheet:			
Cash and cash equivalents	$ 119,203,620	$ 599,801	$ 119,803,421
Other investments	5,474,102	777,652	6,251,754
Total assets	692,110,125	1,377,453	693,487,578
Fund balances	131,663,583	1,377,453	133,041,036
Total liabilities and fund balances	692,110,125	1,377,453	693,487,578
Statement of changes in fund balances:			
Unrestricted current fund revenues	$ 302,750,702	$ (1,657,612)	$ 301,093,090
Investment income - restricted	2,500,223	1,233,553	3,733,776
Total revenues and other additions	437,485,111	(424,059)	437,061,052
Educational and general expenditures	290,839,078	(1,798,025)	289,041,053
Realized losses on investments - restricted	3,487	(3,487)	—
Total expenditures and other deductions	380,848,485	(1,801,512)	379,046,973
Net increase(decrease) for the year	56,636,626	1,377,453	58,014,079
Fund balance beginning, as restated	522,052,541	3,081,743	525,134,284
Fund balance, ending	581,770,910	1,377,453	583,148,363
Statement of current funds, revenues, expenditures and other changes:			
Student fees	$ 74,067,556	$ (1,798,025)	$ 72,269,531
Sales and services of auxiliary enterprises	55,794,140	135,064	55,929,204
Other sources	8,620,645	5,349	8,625,994
Total current revenues	356,717,232	(1,657,612)	355,059,620
Scholarships and fellowships	24,091,189	(1,798,025)	22,293,164
Educational and general expenditures	290,839,078	(1,798,025)	289,041,053
Total educational and general	292,653,612	(1,798,025)	290,855,587
Total expenditures and mandatory transfers	346,132,765	(1,798,025)	344,334,740
Excess of restricted receipts over transfers to revenues	3,750,586	288,366	4,038,952
Administrative and other costs and losses	(29,708)	624	(29,084)
Total other transfers and additions/(deductions)	708,548	288,990	997,538
Net increase in fund balances	11,293,015	429,403	11,722,418

NOTE 21.
COMPONENT UNITS

IPTAY Scholarship Fund

The following presents condensed financial statements for the IPTAY Scholarship Fund, a blended component unit. Complete financial statements of the IPTAY Scholarship Fund can be obtained from the Clemson University Comptroller's Office.

IPTAY Scholarship Fund
Assets, Liabilities and Fund Balance - Modified Cash Balance
June 30, 1998
(Unaudited)

Assets		
Cash and cash equivalents	$	2,529,067
Accrued interest receivable		136,263
Accounts receivable		6,273
Total assets	$	2,671,603
Liabilities and Fund Balance		
Liabilities		
Accrued payroll and related liabilities	$	10,065
Total liabilities		10,065
Fund balance		2,661,538
Total liabilities and fund balance	$	2,671,603

IPTAY Scholarship Fund
Statement of Change in Fund Balance - Modified Cash Basis
For the Year Ended June 30, 1998
(Unaudited)

Revenues and Other Additions		
Private gifts, grants and contracts - restricted	$	5,361,931
Endowment/investment income		1,106,192
Recoveries		43,869
Other income		523
Total revenues and other additions		6,512,515
Expenditures and Other Deductions		
Education and general expenditures:		
Scholarships		3,507,951
Auxiliaries		2,338,801
Instruction		68,951
Total education and general expenditures		5,915,703
Other deductions		458
Total expenditures and other deductions		5,916,161
Transfers to/(from) other university funds		
Nonmandatory:		
To restricted current funds - band uniforms		100,000

To unexpended plant funds - construction	19,028
To restricted current funds - academic scholarship	1,000
Total transfers to other funds	120,028
Net increase (decrease) for the year ended	476,326
Fund balance, beginning	2,185,212
Fund balance, ending	$ 2,661,538

Clemson Research Facilities Corporation

As a component unit, the Clemson Research Facilities Corporation (CRFC), has been included in the reporting entity, and its financial statements appear in a discrete column in the financial section of this report. During the fiscal year ending June 30, 1998, the University had several transactions with CRFC. CRFC reimbursed the University $6,477 for salaries for time devoted by University employees to CRFC. The University's financial statements contain $525,000 in mandatory transfers from the unrestricted current fund to the retirement of indebtedness fund relating to capital lease payments made to CRFC for a research facility. Details of this lease arrangement are described below.

Direct Financing Lease Between Clemson University and the Clemson Research Facilities Corporation

On May 1, 1990, the Clemson Research Facilities Corporation (CRFC) entered into a direct financing lease with the University whereby the University leases a research facility for a twenty-year period beginning June 1991 and expiring June 2011 (note 5). The lease is payable in equal monthly installments of $43,750. The University is required to pay all taxes, utility charges and assessments, insurance premiums and all costs of operation, maintenance, repair and upkeep of the research facility.

The University at its option may terminate the lease and purchase CRFC's interest in the research facility on any July 1 or January 1, upon 30 days prior written notice to CRFC and the Trustee and upon payment by the University of the sum of (1) the research facility lease principal balance, (2) $1, (3) the amount of any executory costs due at such time and (4) any applicable redemption premium on the certificates as provided in the agreement; provided, if the source of funds to pay the applicable redemption premium is a subsequent issue of certificates of participation or similar lease financing, the University may not exercise such option on or prior to July 1, 2011, and thereafter only on payment of such redemption premium as provided in the trust agreement. Upon the payment of the applicable redemption premium, CRFC is required to transfer all its interest in the research facility to the University.

The components of the net investment in direct financing lease at June 30, 1998 are as follows:

NET INVESTMENT IN DIRECT FINANCING LEASE

Future minimum lease payments	$ 6,533,473
Add: Unguaranteed residual value	1
Gross investment in direct financing lease	6,533,474
Less: Unearned income (implicit rate of 8.40%)	(2,634,578)
Net investment in direct financing lease	3,898,896
Less: Current portion	(180,447)
	$ 3,718,449

Future minimum amounts receivable under the direct financing lease for the years ending after June 30, 1998 are as follows:

1999	$ 508,013
2000	507,960
2001	509,583
2002	505,000
2003	505,000
After 2003	3,997,917

$	6,533,473

NOTE 22.
FUND BALANCES

The balances of the fund groups making up the unrestricted current funds at June 30, 1998 are as follows:

Educational and general funds:	
Designated:	
Patent funds	$ 1,943,239
Land and timber funds	1,731,479
County extension funds	642,375
Student activities	381,802
	4,698,895
Undesignated:	10,140,005
	14,838,900
Auxiliary funds	11,176,386
	$ 26,015,286

The Clemson University Patent Policy, approved by the Board of Trustees, designates that those patent royalties not transferred to the quasi endowment fund to support bio-engineering research should be utilized to support the University's other patent-related research efforts. At fiscal year end, $1,943,239 in cumulative patent royalties were available for this purpose.

The $1,731,479 designated fund balance for land and timber funds represents cumulative proceeds from timber harvesting and is designated for use by the Clemson University Agriculture and Forestry Research System.

The $642,375 fund balance for county extension funds represents funds held in each of the State's 46 counties for the operation and mission-related costs of the Clemson University Agricultural Extension Service.

The $381,802 balance for student activities is derived from student fees and is designated for student activities, clubs and programs.

The balances of the fund groups making up the restricted current funds at June 30, 1998 are as follows:

Grants and contracts	$ 4,260,799
Scholarships and student aid	6,961,656
Restricted for colleges, departments and other specified purposes	6,732,599
	$ 17,955,054

The balances of the fund groups making up the loan funds at June 30, 1998 are as follows:

U. S. Government grants refundable	$ 6,625,508
Donor restricted	815,194
	$ 7,440,702

The balances of the fund groups making up the endowment and similar fund at June 30, 1998 are as follows:

Endowment:	
Restricted	$ 7,980,227
Unrestricted	154,439
	8,134,666
Quasi-endowment- unrestricted	30,296,430
Term endowment-restricted	289,959
	$ 38,721,055

The balances of the fund groups making up the plant funds at June 30, 1998 are as follows:

Unexpended plant fund:	
Restricted	$ 50,569,422
Unrestricted - designated	6,482,590
	$ 57,052,012
Retirement of Indebtedness fund:	
Restricted	$ 1,406,535

The $6,482,590 in unrestricted-designated fund balances in the unexpended plant fund is comprised of resources for numerous major capital and repairs and renovation projects funded by University auxiliaries.