October 14, 1998

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

This report on the audit of the financial statements of the College of Charleston 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

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 the College of Charleston (the College) as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended June 30, 1997 were audited by 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 provides a reasonable basis for our opinion.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the College at June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 26 to the financial statements, the College changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Also, as discussed in Note 26, errors in the application of accounting principles regarding the proper carrying amount of certain assets and liabilities were discovered by management of the College during the current year. The changes have been accounted for as prior period adjustments and the beginning fund balances have been adjusted accordingly.

We have audited the adjustments described in Note 26 that were applied to restate the fund balance as of June 30, 1997. In our opinion, such adjustments are appropriate and have been properly applied.

These financial statements exclude the related entities described in Note 18 from the reporting entity because the College is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

The information presented in the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the financial 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 17, 1998

COLLEGE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The College of Charleston reports as part of the State's primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) 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 College of Charleston has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the College of Charleston (a primary entity).

The College of Charleston is a State-supported, coeducational institution of higher education. The College of Charleston 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 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 College of Charleston. The College of Charleston was established as an institution of higher education by Section 59-101-20 of the Code of Laws of South Carolina. Effective July 1, 1992, the College of Charleston was granted university status. The College of Charleston is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

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

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

Basis of Accounting

The financial statements of the College of Charleston 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 fund 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.

Fund Accounting

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 acompanying 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 programs 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 asset, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted. The College's endowment agreement does not require current earnings not used for the restricted purpose to be added to the corpus.

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 College of Charleston, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the College'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, parking, other rentals, and vending machine operations.

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 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 Fund** reported by the College is a singular endowment held by the State Treasurer of South Carolina. As an endowment fund it is subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized for the restricted purpose. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions. Other endowments are held by the College of Charleston Foundation for the benefit of the College. These endowments include both term, quasi-endowment, and pure endowment funds and are subject to the restrictions imposed by various donors. The College of Charleston Foundation is reported herein (Note 18) as a related party.

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. 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 of capital lease obligations) and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the College, 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 College. They include the accounts of students, related professional organizations, and other groups directly associated with the College of Charleston.

<u>Use of Estimates</u>

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

<u>Indirect Cost Recoveries</u>

The College of Charleston records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The College 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 College.

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 holiday leave earned for which the employees are entitled paid time off or payment at termination. The College 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 functional expenditure categories.

Investment in Plant

Physical Plant and equipment, except for plant assets acquired prior to July 1, 1970, 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, 1970, are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable educational and general expenditure categories of the current funds group as the installments are paid. 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 College which reports these assets as land improvements and values them at cost.

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

Library books, periodicals, microfilms, and other library materials on computer data 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 College capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value of $5,000 or more and a useful life in excess on one year; and library materials regardless of cost.

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

Capitalized Interest

The College 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. There was no capitalized interest during the current fiscal year.

Deferred Revenues

In unrestricted current funds, deferred revenues (tuition and fees) consist of receipts collected in advance for the College's Governor's School, in the amount of approximately $380,000 for a program that is predominantly conducted in the next fiscal year. Additionally, it includes deferred student revenues for student tuition and fees of approximately $1,232,000, collected in advance for the Summer II and fall academic terms. The deferred revenues (Auxiliary) consist of student room fees collected in advance for the Summer II and Fall 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 consist of dormitory room deposits, security deposits for possible room damage and key loss, other deposits, and student fee refunds. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

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

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 College receives such revenues primarily from the operation of an Early Childhood Development Center.

Prepaid Expenditures

Expenditures for goods and services paid for in the current or prior fiscal years and benefitting more than one accounting period are allocated among accounting periods. For the College, amounts reported in this asset account consist primarily of prepaid rent for the sports complex field (See Note 6), operational expenditures of the Governor's School and library deposits for future purchases.

Cash and Cash Equivalents

The amounts shown in the financial statements in College funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the College 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 15.

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 College's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the College'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 College's percentage ownership in the pool.

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

For the College'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.

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 by a professional firm contracted by the State Treasurer. The expenditure and liability are recorded in the retirement of indebtedness subgroup.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the Balance Sheet, the Statement of Changes in Fund Balances and the Statement of Current Fund Revenues as previously reported 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 generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Income Taxes

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

NOTE 2 - STATE APPROPRIATIONS

The College of Charleston is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the College receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the College's base budget amount presented in the General Funds column of Section 18E of Part IA of the 1997-98 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1998:

Original Appropriation	$ 24,905,032
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits	441,892
Appropriation Allocations from the State Commission on Higher Education:	
For Performance Funding Appropriation (Proviso 18A.27)	197,439
From 1996-97 Surplus Supplemental Appropriations for Additional Formula Funding (June 1997 Joint Resolution R223, H3401)	1,144,275
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1997 Joint Resolution R 223, H3401)	1,114,290
For Palmetto Fellows Scholarships (Proviso 18A.26)	495,747
For Access and Equity Desegregation Funding (Proviso 18A.7)	57,520
Total State Appropriation-Accrual Basis	28,356,195

Less: Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds 495,747

Funding Reported in Unrestricted Current Funds $ 27,860,448

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In addition to the State Appropriations Revenue, the College received $285,906 from the South Carolina Department of Education to provide $125,000 for instructional services to students from Educational Improvement Act funding; $138,450 for a Charleston County Hub Grant; $17,456 for a Graduate Institution in Statistics grant and $5,000 for "Gifted and Talented" program. The University of South Carolina provided $71,080 to fund "SC Alliance in Minority Participation" grant in the amount of $26,500, Wetland research funding (from State EPSCOR funds) in the amount of $31,742, and a "Middle School Teacher Preparation" grant in the amount of $7,000 and $5,838 to fund other instructional programs. Further, the State Commission on Higher Education provided $1,213,466 (as $1,119,347 for Need Based grants and $94,119 to run a Center of Excellence). Additionally, the College received $19,221 from Coastal Carolina University, $21,167 from the South Carolina Department of Health and Environmental Control and $19,000 from other state agencies to fund grant programs at the College. All amounts are recorded as State Grants and Contracts in the restricted current fund.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In prior years the State authorized funds for improvements and expansion of College facilities using the proceeds of State capital improvement bonds. New funding in fiscal year 1997 added $12 million to construct a new library. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the College records the proceeds as revenue 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 College is not obligated to repay these funds to the State. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable". A summary of the activity in the balances available from these authorizations during the year ended June 30, 1998, follows:

Amount Drawn
in Fiscal Balance

Act	Total Authorized	Amount Drawn in Prior Years	Year Ended June 30, 1998	Authorized June 30, 1998
538 of 1986	$ 5,900,000	$ 5,766,030	$ 6,745	$ 127,225
522 of 1992	5,978,000	4,257,220	41,769	1,679,011
111 of 1997	12,000,000	-	-	12,000,000
Total	$23,878,000	$ 10,023,250	$ 48,514	$ 13,806,236

The balances are reported in the unexpended plant fund subgroup. All of the balances available at June 30, 1998, are now available to be drawn by the College as needed for construction project expenditures. During fiscal year 1998, no undrawn state capital improvement bond proceeds were deauthorized.

NOTE 4 - GRANTS RECEIVABLE -UNEXPENDED PLANT FUND

The Ford Foundation funded a grant to the College in the amount of $200,000 and these proceeds are being held by the College of Charleston Foundation (See Note 18). Also, the S.C. Energy Office has approved a grant of $100,000. These funds are to be used for renovations to the Avery Institute, a museum of black history.

NOTE 5 - BONDS PAYABLE

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

	Interest Rates	Maturity	June 30, 1998 Balance	FY 1999 Maturities
Housing and Auxiliary Facilities Revenue Refunding Bonds Series 1992	4.80 - 6.125%	2012	$16,735,000	$ 750,000
Facilities and Improvement Revenue Refunding Bond Series 1992	4.8 - 5.5%	2007	5,280,000	630,000
Total			$22,015,000	$1,380,000

Housing and Auxiliary Facilities Revenue Refunding Bond Series 1992

The College of Charleston receives a loan subsidy from the U.S. Department of Housing and Urban Development in the amount of $13,462 designated for the Housing and Auxiliary Facilities Revenue Refunding Bonds Series 1992. HUD subsidies in the amount of $13,462 supporting the debt are recorded in the Retirement of Indebtedness fund. These subsidies will continue until the defeased Student Faculty Housing

Revenue Bonds are paid by escrow agent. The various bond indentures restrict the use of particular revenue sources. All dormitories, cafeteria, and parking revenues including any loan subsidies are restricted, up to the amount of annual debt service requirement, for the payment of principal and interest on the Housing and Auxiliary Revenue Refunding Bond Series 1992. Interest is paid semi-annually and the principal annually. These debt service requirements are funded twice yearly and reported as Mandatory Transfers from Auxiliary in unrestricted current funds to retirement of indebtedness.

The following is a financial summary related to the Auxiliary Enterprise activities supporting the Housing and Facilities Revenue Refunding Bond Series 1992:

			Mandatory Transfers	
Activity	Revenues	Expenditures	Amount	Percent
Dormitories	$ 6,484,804	$ 4,520,444	$1,528,943	90.0
Cafeteria	4,175,480	4,018,685	98,532	5.8
Parking Revenues	902,295	764,877	71,351	4.2

The College of Charleston purchased a bond insurance policy in favor of the bond Trustee for the Housing and Auxiliary Facilities Revenue Refunding Bond Series 1992. The insurance covers payments of principal and interest for any period where fees would not be sufficient to pay the debt service payment. Accordingly, there exists no reserve requirement for the Housing and Auxiliary Facilities Revenue Refunding Bond Series 1992.

Facilities and Improvement Revenue Refunding Bonds Series 1992

An allocation of College fee revenue, determined each year by the Board of Trustees, is used to pay principal and interest. The bond covenant states that the College will collect each semester amounts sufficient to meet debt requirements.

In accordance with the Facilities and Improvement Revenue Refunding Bonds Series 1992 bond issue the College maintains with the Trustee a reserve fund not less than the next scheduled principal and interest payments. With the State Treasurer of South Carolina as Trustee, the College makes semi-annual payments to accounts held by the Treasurer to pay the necessary principal and interest payments. The bond covenant states that an amount not exceeding the lesser of (1) the maximum annual principal and interest requirements of the bonds then outstanding for any subsequent fiscal year or (2) a sum permitted as reserve by the regulations of the United States Treasury relating to arbitrage bonds shall be held as a reserve. A debt service reserve fund balance of $881,911 (including unrealized gains of $31,045) is on deposit with the State Treasurer to meet this reserve requirement of $853,500. This amount represents the sum allowable by the United States Treasury relating to arbitrage bonds.

College fee allocations for Plant Improvement are recorded in unrestricted current funds with mandatory transfers of collections of the fee allocations made to retirement of indebtedness each academic term. Payments are made on principal annually and interest semi-annually. The bond covenant requires the fee allocation be so structured that it will raise not less than 110% of the annual debt service requirements for the next ensuing fiscal year of all bonds outstanding. The College fee allocation for this purpose exceeds this requirement.

Beginning on or after October 1, 2002, the Housing and Auxiliary Facilities Revenue Refunding Bonds Series 1992 maturing on and after October 1, 2002, may be redeemed prior to the mandatory redemption dates and final maturities at the option of the College's Board of Trustees. The bonds redeemed are subject to a redemption price equal to the par value of the bond and accrued interest to date.

Beginning on or after January 1, 2003, the Facilities and Improvement Revenue Refunding Bond Series 1992 maturing on and after January 1, 2003, may be redeemed prior to the mandatory redemption dates and final maturities at the option of the College's Board of Trustees. The bonds redeemed are subject to the following terms:

(1) if the redemption be effected before January 1, 2004, the redemption premium shall be two percent (2%) of the principal amount of each Series 1992 Bond redeemed;

(2) if the redemption be effected on or after January 1, 2004, but before January 1, 2005, the redemption premium shall be one percent (1%) of the principal amount of each Series 1992 Bond redeemed;

(3) if the redemption be effected on or after January 1, 2005, there shall be no redemption premium.

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

Year Ending June 30	Principal	Interest	Total
1999	1,380,000	1,223,140	2,603,140
2000	1,250,000	1,155,668	2,405,668
2001	1,330,000	1,092,613	2,422,613
2002	1,410,000	1,023,619	2,433,619
2003	1,490,000	948,093	2,438,093
2004-13	15,155,000	4,549,688	19,704,688
Total Obligations	$ 22,015,000	$ 9,992,821	$ 32,007,821
	=======	=======	=======

During fiscal year 1998, the College paid principal in the amount of $1,330,000 for the two bonds. Further, it reported interest expenditures on the bonds of $1,281,175 for fiscal year 1998. No arbitrage costs were incurred during 1997-98.

In prior years, the College of Charleston defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 1998, $4,448,000 of bonds outstanding are considered defeased.

NOTE 6 - LEASE OBLIGATIONS

The College of Charleston is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment. The College is obligated under a capital lease for the acquisition of copy equipment.

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

Year Ending	Operating Leases		Capital Lease
June 30	Real Property	Equipment	Equipment
1999	$ 993,196	$ 270,116	$ 39,684
2000	649,964	241,743	39,684
2001	335,950	124,453	19,842
2002	240,128	49,632	-
2003	120,000	12,765	-
2004 and beyond	7,050,000	-	-
Total Minimum Lease Payments	$ 9,389,238	$ 698,709	$ 99,210
Less: Interest			$ (4,721)
Less: Executory Costs and Excess Copies			$ (54,350)
Principal Outstanding/Present Value of Net Minimum Payments			$ 40,139

Operating Leases

The College's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2000 through 2062. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

In 1998, the College renegotiated a real property operating lease for fifteen existing locations with the College of Charleston Foundation, a related party, for offices, dormitories and parking lots from July 1, 1997 through June 30, 1998, for annual rentals of $343,755. The agreement contains a year to year renewal option with no purchase option or other financial terms. Under this agreement, the College paid the Foundation $343,755 in the current year. These leases provide that the College assumes responsibility for the maintenance of the property. There are no escalation clauses in the leases nor is the College liable for property taxes. During the subsequent fiscal year, the College renewed all existing leases with the Foundation with no changes in the terms or lease period.

In the case of operating leases for real property from commercial vendors, there exist two leases with escalation clauses limited to the cost of living. Additionally the College pays the commercial vendor property taxes. The College performs routine maintenance on these properties.These costs are not included in the schedule of lease commitments.

Additionally, the College leased a sports complex field from the Patriots Point Development Authority, a State Agency, with annual rents of $90,000 per year ($7,500 per month) April 1, 1997 through March 31, 2002 and $10,000 per month April 1, 2002 through March 31, 2062 with annual increases equal to the Consumer Price Index beginning April 1, 2003. A one-time payment of $500,000 is due when the College sells its Remleys Point property but no later than 18 months from the lease execution date of January 3, 1997. The Remleys Point property has not been sold. The one-time payment of $500,000 was accrued in fiscal year 1997 with a corresponding charge to prepaid expenditures. It is being amortized ratably over the 65 year lease term utilizing the straight line method of calculation. The lease agreements make no provisions beyond the 65 year period. The unamortized balance at June 30, 1998 is $490,385. Amortization for fiscal year 1998 was $7,692. The College provides maintenance to the tax exempt property. The College paid the Patriots Point Development Authority $90,000 in rent in fiscal year 1998.

Total operating lease expenditures in fiscal year 1998 were approximately $1,032,000 for all real property and approximately $155,000 for other equipment. The College reports these costs in the applicable current funds functional expenditure categories.

Capital Lease

During the 1995-96 fiscal year, the College entered into a capital lease for copier equipment in the amount of $73,850. This lease is payable in monthly installments from unrestricted current funds resources with a term expiring in December, 2000. Capital lease expenditures for fiscal year 1998 were $34,220, of which $3,354 represented interest and $16,672 represented maintenance cost plus excess copies. The interest rate is 7%. The carrying value of the copier equipment is $73,850 under the capital lease at June 30, 1998. The unpaid principal balance of the capital lease is $40,139 at June 30, 1998.

NOTE 7 - NON-MANDATORY TRANSFERS

Debt Service funds become available for transfer because of the maintenance of minimum and maximum balances including reserves for payment of debt service (and facility operating cost) as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the Retirement of Indebtedness fund subgroup until they are transferred by the State Treasurer into a general capital improvement funding account. For revenue bonds issued by the College, a written request for the transfer of funds in excess of required minimum balances is submitted by the College to the State Treasurer. The College transferred $158,488 from the Retirement of Indebtedness fund to the Unexpended Plant fund general capital funding account for unspecified future capital projects. The unexpended balances in the general capital funding accounts are reported in Unexpended Plant Funds Unrestricted Designated fund balance. As needed, monies are transferred from the general capital funding account to specific capital projects accounts.

The College transferred $3,539,759 from Unrestricted Current Funds group to the Unexpended Plant funds. The transfer included $1,474,500 for specific capital projects and $2,065,259 for unspecified future projects. The $1,474,500 represents college fees approved by the State Budget and Control Board for educational and general capital projects. All of the specific projects were approved by the State Budget and Control Board. For the most part, once projects are approved, institutions are authorized to transfer such funds with notification to the State Treasurer. During the current year, the College transferred $2,444,500 within Unexpended Plant funds from the general capital funding account to finance specific capital projects. Unexpended balances of all specific capital project accounts are reported as restricted fund balances in the Unexpended Plant fund.

The College transferred $11,334 from the Perkins Loan Funds to the current restricted funds to be used for a financial aid program.

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 College 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 (PERS). 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 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 July 1, 1989, for the System is 1.82% 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 5 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 5 years credited source. 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% which included a 1.916% surcharge to fund retiree health and dental insurance coverage. The College's actual contributions to the

SCRS for the three most recent fiscal years ending June 30, 1998, 1997 and 1996 were approximately $2,096,000, $1,969,000, and $1,860,000, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the College paid employer group-life insurance contributions of approximately $41,600 in the current fiscal year at the rate of .15% of compensation.

The amounts paid by the College for pension and group-life insurance 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 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 benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the College'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 College's liability under the pension plan(s) 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 College recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equal 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% plus the retiree surcharge of 1.916% from the employer in fiscal year 1998.

Certain of the College's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $581,300, excluding the surcharge from the College as employer and approximately $461,900 from its employees as plan members. In addition, the College paid approximately $11,500 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 College 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 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 College for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the College 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. The number of State retirees that meet these eligibility requirements is not available.

The College recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits
for active employees in the amount of approximately $2,007,000 for the year ended June 30, 1998. As discussed in Note 8, the College paid approximately $679,000 applicable to the 1.916% 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 College retirees is not available. By State law, the College 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 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 College 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 the 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 held for resale are valued at the lower of cost or market. Inventories for internal consumption are valued at cost. The following is a summary by inventory category of cost determination method and value at June 30, 1998:

Category	Method	
Bookstore	Moving Weighted Average	$ 1,452,782
Central Stores	First-in, First-out	231,139
		$ 1,683,921
		=======

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the College operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the stated cash management pool account. During the year, one interfund borrowing occurred in the amount of $315,529 between restricted current and unrestricted current funds.

The $315,529 represents reimbursable amounts for federal programs to be received during fiscal 1999, without interest, satisfying the interfund borrowing.

COLLEGE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

NOTE 13 - STUDENT LOAN RECEIVABLES AND OTHER RECEIVABLES

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

Unrestricted Current Funds:			
Cafeteria and Vending Commissions	$ 216,083		
Bookstore Book Credit Memos	266,839		
Other Miscellaneous	117,351		
Student Academic Fees Receivable Net	1,149,651		
Student Auxiliary Servbice Fees Net	198,193		
	$ 1,948,117		
Restricted Current Funds:			
Grants and Contracts		650,989	
Loan Funds:			
Perkins Loan Program	$ 2,226,008		
Baruch Loan Program	300		
Federal Allocation	45,534		
			2,271,842
Unexpended Plant Funds:			
State Capital Improvement Bonds	$13,806,236		
Grants Receivable (See Note 18)	300,000		
	14,106,236		
	$18,977,184		
	=======		

At June 30,1998, receivables in the unrestricted current fund group are reported net of the applicable allowances for uncollectibles. Allowances in the unrestricted current fund for losses for student fees receivables are established based upon actual losses experienced in prior years and evaluations of the current account portfolios. The allowances for student academic fees receivable and auxiliary receivables in unrestricted current funds are valued at $112,146 and $28,037 respectively. In the loan fund group, losses for student loans receivable are not estimated or recorded in allowances for uncollectible accounts. The amounts are not considered material enough to adversely affect the financial statements. At the time a loan is considered to be uncollectible, it is charged to the principal of the fund from which the loan was made.

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

The College 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 College 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 five years at a total estimated cost of approximately $41,317,000. Of the total cost, approximately $30,362,000 was unexpended through June 30, 1998. The College capitalized projects costing $5,453,134 in the applicable plant asset categories during the fiscal year 1998. The amount expended for fiscal year 1998 does not include any capitalized interest on construction debt. Of the unexpended balance at June 30, 1998, the College had remaining commitment balances of approximately $11,600,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Most of this commitment reflects the College's purchase of land, buildings and improvements collectively known as Bishop England High School, Charleston, SC for $8,923,692 on July 1, 1998. The project was funded with $7,000,000 in South Carolina Educational Assistance funds and other funds set aside for capital projects. Other major additional commitments include $885,000 for the renovation of old Sears property and $1,287,283 for the construction of new library.

Major capital projects at June 30, 1998, which constitute construction in progress, are listed below:

Project Title	Estimated Cost	Amount Expended
Bishop England Acquisition	$ 10,030,000	$ 31,900
Sears Renovation - 3rd Floor	1,583,142	128,919
Central Energy Expansion	3,169,837	2,540,326

Student Center Renovation	1,000,000		24,013
American Disabilities Act Compliance Alterations	162,413		67,314
Total	$ 15,945,392	$ 2,792,472	
	========	=========	

The College anticipates funding these projects out of current resources, future bond issues, private gifts, student fees and donations.

At June 30, 1998, the College had approved and budgeted funds for other capital projects which are not to be capitalized when completed at an estimated cost of $1,100,000. These projects are for replacements, repairs, and/or renovations to existing facilities. Of the total cost, $471,600 was unexpended at June 30, 1998. The College anticipates funding these projects from available funds.

NOTE 15 - DEPOSITS

All deposits and investments of the College are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers with the approval of the State Treasurer's Office.

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

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$38,262,693	Cash on Hand	$ 21,400
		Deposits Held by State Treasurer	38,191,934
		Other Deposits	49,359
Totals	$38,262,693		$38,262,693

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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 agents in the State's name. Information pertaining to the carrying 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.

Cash and cash equivalents reported on the balance sheet at June 30, 1998, include $481,183 in unrealized gains as of June 30, 1998.

As disclosed in Note 5, Retirement of Indebtedness Funds include $888,911 (including unrealized gains of $31,045) in restricted cash held by State Treasurer to cover the debt service reserve fund as required by the bond indenture.

Other Deposits

The College's other deposits at year-end were entirely covered by federal depository insurance or by collateral held by the College's custodial bank in the College's name. The $49,359 consist of $46,272 of cash collections by the College's billing agent for the Perkins Loan Program and $3,087 in a revolving student Baruch Loan account. These accounts have been approved by the State Treasurer.

NOTE 16 - ENDOWMENT FUND

The Endowment fund is held by the State Treasurer of South Carolina as cash and cash equivalents for the College. Interest earnings are available to the College and recorded in the restricted current fund.

NOTE 17 - PLEDGE OF GIFTS

Pledges of gifts are received and managed by the College of Charleston Foundation herein reported as a related party in Note 18.

NOTE 18 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the College exist primarily to provide financial assistance and other support to the College and its educational program. They include the College of Charleston Foundation and the Cougar Club. The financial statements of the College of Charleston Foundation and the Cougar Club are audited by independent auditors retained by the organization. The activities of these organizations are not included in the College's financial statements. However, the College's statements include transactions between the College and these related parties.

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

The College of Charleston Foundation is a separately chartered entity which exists exclusively to benefit the College. Transactions between the College and the Foundation during the year ended June 30, 1998, were as follows:

Unrestricted current fund - private gifts, grants and contracts for auxiliaries:	
Awarded for general support of athletic activities	$ 15,000
Restricted current fund - private gifts and grants:	
Scholarships awarded by the College and reimbursed by the Foundation	$666,870
Unrestricted current fund - educational and general expenditures:	

Expenditures incurred for rents by the College to the Foundation for the rental of certain real property (excludes approximately $2,000 for premiums for insurance coverage on leased properties owned by the Foundation). Of the total expenditures, $24,500 was owed to the Foundation by the College at June 30, 1998 and is included in accounts payable and accrued expenses	$343,755
Unexpended Plant Fund - Grants Receivable:	
Grant proceeds received from Ford Foundation for Avery Normal Institute held by the Foundation for the College. (See Note 13)	$ 200,000
Investment in Plant - Private Gifts:	
Gift by the Foundation to the College of its interest in land and building at 81 St. Phillip Street to the extent current market value exceeded the consideration of $2,150,000 paid by College.	$2,660,000
Agency Funds - Deposits held for others:	
Deposit for Foundation held by College	$ 10,561

See Note 6 for details on lease transactions with the Foundation.

The financial statements of the Foundation as of December 31, 1997, and for the year then ended were examined by independent auditors. The assets, liabilities and financial operations of the Foundation as of December 31, 1997, and for the year then ended, are summarized herein from the Independent Auditor's Report, and are not included in the accompanying financial statements of the College.

COLLEGE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

The latest available audited financial statement for the College of Charleston Foundation is summarized as follows:

Statement of Financial Position

December 31, 1997

Assets (in thousands)	
Cash and short term investments	$ 1,079
Promises to Give	1,156
Investments	22,809
Accounts and notes receivable	430
Prepaid expenses	11
Property and equipment	8,267
Other assets	215
Total Assets	$ 33,967

Liabilities and Net Assets	
Liabilities:	
Deferred revenues	$ 18
Accrued expenses	208
Notes payable	330
Annuity payable	77
Tuition Benefits Payable	207
Total Liabilities	$ 840

Fund Balances:

Unrestricted	$ 105
Temporarily Restricted	18,911
Permanently Restricted	14,111
Total Net Assets	33,127
Total Liabilities and Net Assets	$ 33,967
	==========

Statement of Activities (in thousands)	Fiscal Year Ending December 31, 1997
Revenue, Gains and Other Support:	
Contributions	$ 9,057
Investment and other income	1,112
Grants and contracts	272
Net Gains (Realized and Unrealized)	2,516
Total	$ 12,957
Expenses and Losses:	
Program expenses	$ 5,047
Supporting expenses	730
Total	5,777
Change in Net Assets	7,180
Net Assets, Beginning of Year - As Restated	25,947
Net Assets, End of Year	$ 33,127
	==========

The College of Charleston Foundation incurred $876,263 in expenditures that were paid by, and reimbursed to, the College during the fiscal year.

The Cougar Club is another organization related to the College whose activities are to solicit and provide funds to the athletic department in the form of scholarships and general revenues from season ticket sales and fund raising activities. Season basketball tickets are only available through Cougar Club membership. In conjunction with GASB statement No. 14, the College has reviewed its relationship with the Cougar Club. The College excluded this organization from the reporting entity because it is not financially accountable for it. The College received $175,000 from the Cougar Club in fiscal year 1998, primarily for athletic scholarships which are reported as part of private gifts and contracts for auxiliaries in the unrestricted current fund and $67,000 for basketball ticket sales which is reported as sales and services of Auxiliary Enterprises in unrestricted current fund. The last published financial statement provided by the Cougar Club was included in Note 18 of the College's financial statements for the year ended June 30, 1996.

NOTE 19 - TRANSACTIONS WITH STATE ENTITIES

The College of Charleston 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, deposit and bond trustee functions from the State Treasurer; legal services from the Attorney General and grant services from the Governor's Office; and records storage from the Department of Archives and History. At June 30, 1998 the College had outstanding Accounts Payable with certain state agencies for goods and services: to the Division of Information Management $62,015 for telephone services and $42,957 for new telephone wiring, to the Medical University of South Carolina $431,101 for Security Services, to the South Carolina Retirement System $464,113 for employee/employer share of retirement, to Patriots Point Development Authority $500,000 for a lump-sum lease payment and to various other agencies in the amount of

$41,968 for miscellaneous goods and services. These payables, with minor exceptions, are recorded in the unrestricted current fund.

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 College 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, vehicle rental, surplus property disposal fees, insurance coverage, office supplies, telephone, 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 party transactions are not readily available.

The College purchased various goods and services from other State agencies during fiscal year 1998. The College primarily paid The Citadel $242,946 for printing services, the Division of General Services $37,180 for office and educational supplies, the Medical University $38,769 for printing and $1,999,921 for public safety services, the S.C. Department of Corrections $22,168 for furniture, the State Office of Insurance Services $733,014 for insurance, and the Patriots Point Development Authority $90,000 for lease of land on which the College will build a sports complex. Generally these amounts are recorded as expenditures in the current funds group. The College provided no services to other state agencies during the year.

The College did pass certain federal grant funds to other state agencies as subrecipient grantees in the amount of $128,323 to the University of South Carolina, South Carolina State University, Clemson University, The Citadel, Coastal Carolina University and Winthrop University.

As a subrecipient the College received federal funds from other state agencies primarily from the University of South Carolina in the amount of $90,010, the Medical University in the amount of $5,000, the South Carolina Sea Grant Consortium in the amount of $214,091, the South Carolina Department of Education in the amount of $72,362, South Carolina Department of Natural Resources in the amount of $13,341, State Historical Records Advisory Board in the amount of $1,500, South Carolina Department of Social Services in the amount of $6,728, South Carolina Department of Public Safety in the amount of $19,152 and the South Carolina Commission on Higher Education in the amount of $108,188 and the Department of Health and Environmental Control in the amount of $53,785. At June 30, 1998 the College recorded $98,035 as Federal Grants Receivable in the restricted current fund as federal funds passed through these state agencies.

NOTE 20 - CONTINGENCIES AND LITIGATION

During the year ending June 30, 1998, there was one lawsuit pending against the College of Charleston. This lawsuit involved a vendor who is suing the College based on a claim that the College failed to pay interest on payments to the vendor for payments made that exceeded thirty

working days. There were four administrative grievances pending as of June 30, 1998. One of these grievances was filed with the Office of Civil Rights alleging race discrimination. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for the law suit or these grievances is remote, the outcome of the grievances and claims is expected to have no material adverse effect on the financial position of the College. Therefore an estimated liability has not been recorded.

For torts, theft or damage of assets, errors or omissions, job related injuries or illness or acts of God, events for which the College retains a portion of the risk of loss and has not accrued a loss, it is probable that a loss has been incurred. However, the College is unable to estimate the amount of the loss.

The College has examined its potential for environmental remediation liabilities and has determined that its operations have not involved any potential liability. The College utilizes an approved hazardous waste plan for its operations

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

NOTE 21 - RISK MANAGEMENT

Insurance Coverage

The College 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 year. Settled claims have not exceeded this coverage in any of the past three years. The College 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 sets 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 (Retirement Systems).

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 College 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 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 and watercraft (inland marine);

4. Torts;

5. Business interruptions;

6. Natural disasters; and

7. Medical professional liability claims against covered employees for health services and athletic trainers.

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. The IRF purchases insurance for ocean marine coverage. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

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

The College obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

The College has recorded insurance premium expenditures in the applicable functional expenditure categories of the College's unrestricted current funds. These expenditures do not include estimates for probable premium adjustments resulting from actual loss experience for all coverages by the insurers for the fiscal year because the College's actual history indicates the amount is immaterial. The College is insured for such coverage under a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

The College has not transferred the portion of the risk related to insurance policy deductibles, unreported claims, underinsurance, or co-insurance for any coverages to a State or commercial insurer. The College has not reported an estimated claims loss expenditure, or a related liability at June 30, 1998, based on the requirements of GASB Statement No. 10, which state that a liability for claims must be reported 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. The College has not reported an estimated claims liability because the actual history of claim losses indicates the amount is insignificant. Furthermore, there is no evidence of asset impairment on other information to indicate that a loss expenditure and liability should be recorded at year end.

NOTE 22 - FUND BALANCES

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

Educational and General	$ 5,051,489	
Portion attributable to Compensated Absences and Related Benefits		
(1,851,455)		
Total Fund Balances, net		$ 3,200,034

Auxiliary Enterprises	$ 5,168,589	
Portion Attributable to Compensated Absences and Related Benefits	(232,478)	
Total Fund Balances, net		$ 4,936,111
Total Unrestricted Current Fund Balance		$ 8,136,145
		=======

The balance of the restricted current funds at June 30, 1998 is as follows:

Grants and Contracts	$ 225,000
	=========

The balances of the loan funds at June 30, 1998 are as follows:

U.S. Government grants refundable	$ 2,342,826	
Donor Restricted	6,726	
		$ 2,349,552
		=======

The balance in the endowment fund at June 30, 1998:

Restricted	$ 102,363
	=======

The balances of the plant funds at June 30, 1998 are as follows:

Unexpended plant fund:		
Restricted	$ 9,447,580	
Unrestricted - designated		27,740,467
	$ 37,188,047	
	========	

Retirement of Indebtedness fund:	
Restricted	$ 897,020
	========

NOTE 23 - INVESTMENT IN PLANT

Property and equipment at June 30, 1998, consist of:

Land and Improvement	$ 14,971,883
Buildings and Other Improvements	94,297,649
Equipment	7,025,203
Library Materials	14,887,010
Total	$131,181,745
	=======

NOTE 24 - YEAR 2000 COMPLIANCE

The College has developed a plan to modify its information technology to be ready for the year 2000 and has begun converting critical data processing systems. The College's Alpha operating system is now year 2000 compliant. Software currently under contractual agreements include contract provisions to modify such by 2000. In house maintained software is currently under modification and will be compliant before year 2000.

NOTE 25 - PRIOR PERIOD ADJUSTMENTS

Effective July 1, 1996, the College changed its equipment definition and raised its valuation level from $500 to $5,000 to capitalize those items with a unit value in excess of $5,000 and having an expected life in excess of one year. The fiscal year 1997 memorandum totals included in the statement of changes in fund balances include $10,529,624 under expenditures and other deductions for the removal of capitalized assets on hand July 1, 1996, which did not meet the $5,000 capitalization limit, in the investment in plant funds subgroup. The account title is "Property and equipment deletions from change in capitalization policy".

NOTE 26 - ACCOUNTING CHANGES

Effective July 1, 1997, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This

Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires that the equity position of each fund that sponsors the pool to be reported as assets in those funds. As a result of this accounting change, investment income and endowment income reported includes interest, realized gains (losses) and unrealized gains (losses).

Also, the College corrected various errors involving the application of accounting principles. The amounts reported in the totals (memorandum only) for the year ended June 30, 1997 have not been restated for these corrections.

The College has restated its beginning fund balances and net investment in plant as of July 1, 1997 for the changes resulting from the adoption of GASB Statement 31 and the various errors involving the application of accounting principles, which are disclosed in the following schedule:

COLLEGE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

		Plant Funds			
	Current Unrestricted Fund	Endowment Fund	Unexpended	Retirement of Indebtedness	Investment in Plant
Balances, as previously reported	$ 5,997,759	$ 100,000	$ 36,301,131	$ 862,916	$ 102,509,273
To record adoption of GASB Statement 31	9,700	1,511	24,275	10,873	-
To record accrued liability for accrued fringe benefits	(218,643)	-	-	-	-
To record liability sales collected and credited to auxiliary revenue	(11,194)	-	-	-	-
To record prepaid expenditures for library deposit that funded fiscal year 1998 purchases	150,000	-	-	-	(150,000)
To charge off excess amount in control account over subsidiary listing for student refund clearing account	(45,079)	-	-	-	-
To charge off prepaid expenditures for security deposit that was used to purchase real property in fiscal year 1996	(25,000)	-	-	-	25,000

COLLEGE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

To record accrued interest attributable invested cash with State Treasurer	39,018	-	77,663	3,524	-
To record gifts to library during fiscal year 1997					94,680
Balances, as restated	$ 5,896,561	$ 101,511	$ 36,403,069	$ 877,313	$ 102,478,953
	=========	=======	========	========	========
Portion of adjustments attributable to fiscal year 1997	$ (57,085)	$ 221	$ 216	$ 982	$ 94,680