

**SOUTH CAROLINA STATE UNIVERSITY  
ORANGEBURG, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

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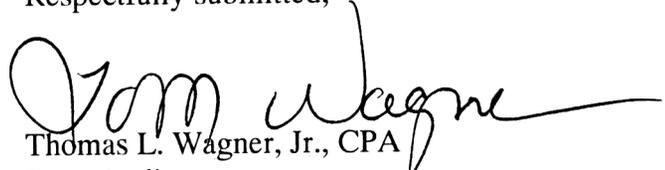
September 20, 2004

The Honorable Mark Sanford, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
Orangeburg, South Carolina

This report on the audit of the financial statements of South Carolina State University for the fiscal year ended June 30, 2003, 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

**SOUTH CAROLINA STATE UNIVERSITY**

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YEAR ENDED JUNE 30, 2003**

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CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of South Carolina State University, (the University) as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. 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 described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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1st Global Insurance Service, Inc.*

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2004, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Rogers & Lalan, PA*

August 26, 2004

**SOUTH CAROLINA STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2003**

**Introduction**

We are pleased to submit the annual Financial Statements for South Carolina State University (SCSU) for the fiscal year ended 2003. The following discussion and analysis has been prepared by the management of South Carolina State University to provide an overview of the financial activities of the University for the fiscal year ended June 30, 2003. Please read it in conjunction with the financial statements and the accompanying notes to the financial statements. The financial presentation for the University has been prepared to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statement's and Management's Discussion and analysis for Public Colleges and Universities*. The information presented in the Financial Statements is designed to aid a wide variety of readers in assessing the effectiveness of the University's management in using its resources to meet its primary mission of instruction, research, and public service and to provide a comprehensive picture of the University's financial activities and soundness.

**Using this Annual Report**

This annual report consists of a series of financial statements as follows: the Statement of Net Assets, the statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements emphasize the financial condition of the University, the cash flows (sources and uses of funds) of the University as a whole, and the results of operations. As a result of the implementation of GASB Statement 34, public colleges and universities of South Carolina elected to report as business type activities (BTAs). Therefore these statements are intended to provide a view of the University's financial position similar to that presented by most private sector companies. The financial statements are presented using the accrual basis of accounting. The accrual basis of accounting takes into consideration all of the University's revenue and expenses regardless of when cash is received or payments are made. Significant revenues of the University such as state appropriations, gifts, and investment income are considered non-operating.

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. This statement is a point-of-time financial statement that provides the reader with a fiscal snapshot of South Carolina State University. The Statement of Net Assets consists of assets (current and non-current), liabilities (current and non-current) and net assets (assets minus liabilities). Current assets consist principally of cash and receivables. The current portion of the assets will be converted to cash within one year to be used to pay for the current portion of the liabilities. Current liabilities consists principally of accounts payables and accrued compensation. These liabilities will be settled within one year. Non-current assets consist primarily of capital assets, net of accumulated depreciation. Non-current assets will not be converted to cash within one year. Non-current liabilities consists primarily of bonds payables, net of the current portion and accrued compensation, net of the current portion. Non-current liabilities will not be settled within one year. Net assets

are divided in three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned by the University. The next category is restricted net assets which is further divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted resources is for investment purposes only and therefore not available for expenditure. The expendable restricted net assets are available for expenditure by the University but are restricted for specific purposes based on defined restrictions by donors and/or external entities. The third category of net assets is unrestricted net assets. These assets may be expended for any lawful purpose of the University.

The "Condensed Statement of Net Assets" as shown below, presents a comparison of assets, liabilities, and net assets between June 30, 2002 and June 30, 2003. The June 30, 2002 amounts have been restated by prior period adjustments that resulted in a net reduction of \$2,211,346 (for further details see Note 17 in the Notes to Financial Statements).

### Condensed Statement of Net Assets

|  | <u>2003</u>                | <u>2002</u><br><u>as restated</u> | <u>Increase</u><br><u>(Decrease)</u> | <u>Percent</u><br><u>Change</u> |
|--|----------------------------|-----------------------------------|--------------------------------------|---------------------------------|
| <b>Assets:</b>                                     |                            |                                   |                                      |                                 |
| Current Assets                                     | \$13,696,232               | \$10,799,718                      | \$2,896,514                          | 26.82%                          |
| Non-current Assets                                 | 8,231,963                  | 3,434,423                         | 4,797,540                            | 139.68%                         |
| Capital Assets, Net                                | <u>46,745,190</u>          | <u>46,657,136</u>                 | <u>88,054</u>                        | .19%                            |
| <b>Total Assets</b>                                | <b><u>\$68,673,385</u></b> | <b><u>\$60,891,277</u></b>        | <b><u>\$7,782,108</u></b>            | <b>12.78%</b>                   |
| <b>Liabilities:</b>                                |                            |                                   |                                      |                                 |
| Current Liabilities                                | \$ 9,883,348               | \$10,181,762                      | (\$ 298,414)                         | (2.93%)                         |
| Non-current Liabilities                            | <u>12,056,336</u>          | <u>8,732,363</u>                  | <u>3,323,973</u>                     | 38.06%                          |
| <b>Total Liabilities</b>                           | <b><u>\$21,939,684</u></b> | <b><u>\$18,914,125</u></b>        | <b><u>\$3,025,559</u></b>            | <b>15.99%</b>                   |
| <b>Net Assets:</b>                                 |                            |                                   |                                      |                                 |
| Invested in Capital Assets,<br>Net of Related Debt | \$41,720,571               | \$41,305,540                      | (\$415,031)                          | 1.00%                           |
| Restricted-Nonexpendable                           | 437,357                    | 437,462                           | (105)                                | .02%                            |
| Restricted—Expendable                              | 2,895,987                  | 1,957,452                         | 188,514                              | 9.60%                           |
| Unrestricted                                       | <u>1,679,786</u>           | <u>(1,723,302)</u>                | <u>3,403,088</u>                     | 197.47%                         |
| <b>Total Net Assets</b>                            | <b><u>\$46,733,701</u></b> | <b><u>\$41,977,152</u></b>        | <b><u>\$4,756,549</u></b>            | <b>11.33%</b>                   |

The University's financial position is strong at June 30, 2003 with current assets exceeding current liabilities by 139%. The vast majority of current assets (90%) are composed of cash and cash equivalents and accounts receivable, net of allowance for doubtful accounts. Current liabilities consist primarily (73%) of account payable, accrued payroll and compensated absences, and deferred unearned student revenues.

The increase in assets is mainly attributable to \$4,000,000 of State Institution Bonds, Series 2003G proceeds, dated June 1, 2003, to be used for deferred maintenance on the campus (for further details see Note 10 in the Notes to Financial Statements). Also represented in non-current assets is \$750,000 of restricted lottery funds that were appropriated by the South Carolina General Assembly. The reduction of current liabilities is mainly attributable to a \$1.3 million cash overdraft that the University had incurred as of June 30, 2002. No overdraft existed as of June 30, 2003. The increase in non-current liabilities is mainly the result of the bonds payable for the issuance of the \$4,000,000 State Institution bond, as discussed above.

Net assets are a good indicator of the University's financial position and will become a more useful trend measurement tool of financial strength once additional historical data is obtained.

### ***Statement of Revenues, Expenses, and Changes in Net Assets***

The Statement of Revenues, Expenses, and Changes in Net Assets is a presentation of the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or non-operating. The financial reporting model selected by public institutions classifies state appropriations and gifts as non-operating revenues. Since the University is a public institution and depends upon state aid and gifts, the University's statement will result in an operating deficit, all things being equal. This statement will reflect the utilization of long-lived or capital assets in the form of depreciation expense. Depreciation expense amortizes the cost of a capital asset over its expected useful life.

Generally speaking, operating revenues are earned or received for providing goods and services to the various customers or students and constituencies of the University. Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided. Operating revenues and expenses are as a result of carrying out the mission of the University. Non-operating revenues are received for which there is not a reciprocal agreement – no goods and services are provided. There was a net \$2,211,346 in prior period adjustments that restated 2002 net assets. Some of these adjustments related to transactions applicable to fiscal year 2002 and prior. The impact of some of these adjustments on fiscal year 2001-2002 revenues and expenditures have not been determined.

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

|  | <u>2003</u>                  | <u>2002</u>                  | Increase<br>(Decrease)    | Percent<br>Change |
|--|------------------------------|------------------------------|---------------------------|-------------------|
| Operating Revenues   | \$50,113,579                 | \$46,919,258                 | \$3,194,321               | 6.81%             |
| Operating Expenses   | <u>76,135,921</u>            | <u>79,465,409</u>            | <u>(3,329,488)</u>        | 4.19%             |
| Operating Loss   | <u><b>(\$26,022,342)</b></u> | <u><b>(\$32,546,151)</b></u> | <u><b>\$6,523,809</b></u> | 20.04%            |
| Non-Operating Revenues (Expenses)                          | \$30,404,496                 | \$28,954,443                 | \$1,450,053               | 5.01%             |
| Income (Loss) Before Extraordinary Item                    | 4,382,154                    | (3,591,708)                  | 7,973,862                 | 222.00%           |
| Capital Improvement Bonds for                              |                              |                              |                           |                   |
| Capital Additions  | 427,793                      | 193,275                      | 234,518                   | 121.34%           |
| Indirect Costs remitted to State General Fund              | (368,958)                    | (227,466)                    | (141,492)                 | 62.20%            |
| Extraordinary Item   | <u>315,560</u>               | <u>(1,265,560)</u>           | <u>1,581,120</u>          | 124.93%           |
| Increase (Decrease) in Net Assets                          | <u><b>\$4,756,549</b></u>    | <u><b>(\$4,891,459)</b></u>  | <u><b>\$9,648,008</b></u> | 197.24%           |
| Net Assets at Beginning of Year,<br>As Previously Reported | \$44,188,498                 | \$ 49,079,957                | (\$ 4,891,459)            | 596.00%           |
| Prior Period Adjustments                                   | (2,211,346)                  |                              | 2,211,346                 | 100.00%           |
| Net Assets at Beginning of Year-Restated                   | <u>41,977,152</u>            | <u>49,079,957</u>            | <u>(7,102,805)</u>        | 14.47%            |
| Net Assets at End of Year                                  | <u><b>\$46,733,701</b></u>   | <u><b>\$44,188,498</b></u>   | <u><b>\$2,545,203</b></u> | <b>5.76%</b>      |

Operating revenues for Student Tuition and Fees and the Auxiliary Enterprises have been shown net of Scholarship Allowances. This is a calculation and reporting requirement as a result of the implementation of GASB 34/35. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is billed to the student and/or third parties making payments on behalf of the student. Operating revenues increased in fiscal year 2003 by \$3.2 million which was mainly attributable to additional revenues from student tuition and fees (\$1.7 million) and federal grants and contracts (\$1.3 million). The Board mandated an 11.2 percent student fee increase which was directly responsible for the \$1.7 million increase in student tuition and fees.

Operating expenses declined in fiscal year 2003 in comparison to fiscal year 2002 by \$3.3 million. As a result of decreases in state appropriations in fiscal year 2002 and further anticipated reductions in fiscal year 2003 the Board mandated a 15 day furlough for all employees during fiscal year 2003. The furlough created savings in salaries, wages, and related benefits of over \$2 million. The University also took a conservative approach to purchasing supplies during the year which resulted in a cost savings over the prior year by \$2.5 million. These expense reductions helped offset a \$1 million increase in scholarships as a result of fee increases and a slight increase in FTE enrollment.

The University's "Operating Loss" of \$26 million is due mainly to the fact that State Appropriations (\$24.6 million) and Capital Improvement Bond Proceeds (\$447,040) were determined not to be operating revenues for colleges and universities according to GASB 35. These two revenue lines appear under "Non-operating Revenues." The increase in operating revenues plus the decrease in operating expenses from fiscal year 2002 reduced the operating loss from 2002 by \$6.5 million.

Permanent cuts from the previous year, plus two mid-year reductions totaling 8.3 percent, resulted in a \$2.9 million decrease in state appropriations. State grant revenues were increased by \$4.2 million mainly due to the General Assembly authorizing appropriations of lottery funds of \$3.0 million. An increase in investment income of \$279,000 offset a decline in capital improvement bond revenue of \$330,000. The investment income increase was attributable to fair market value increases in investments held by the State Treasurer for the University with an increase in these investments of the additional \$4 million State Institution bonds for a portion of the year.

The fiscal year 2003 statement reflects an extraordinary item of \$315,560. This is a reduction of the fiscal year 2002 extraordinary item of \$1,265,560 which was for an adverse judgment rendered during fiscal 2002 against the University in favor of a former construction contractor relative to the completion of the 1890 Extension Facilities. The University was successful in reducing the judgment to a settlement amount of \$950,000. The settlement will be paid in fiscal year 2004.

### ***Statement of Cash Flows***

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss on the Statement of Revenues, Expenses and Changes in Net Assets.

### ***Capital Asset and Debt Administration***

The University's "Statement of Net Assets" reflects total Capital Assets, net of accumulated depreciation, as of June 30, 2003 of \$46.7 million. This amount is presented net of accumulated depreciation and includes plant (facilities) and equipment. Significant to the facilities total is that of the 49 buildings listed in the financial records, 70% of these buildings are more than 30 years old. Eleven of the forty-nine facilities are residential life facilities.

The University's financial statements indicate \$8,895,000 in bonds payable, and \$129,619 in capital leases payable at June 30, 2003. During fiscal year 2003 the State of South Carolina, on behalf of the University, issued State Institution Bonds totaling \$4,000,000 for deferred maintenance on the campus. These bonds are general obligations of the State and are secured as to payment of principal and interest by a pledge of the full faith, credit and taxing power of the State, and are additionally secured by a pledge of the revenues derived

from the tuition fees received by South Carolina State University. The University's bonded indebtedness consisted of: State Institution bonds of \$4.0 million, stadium improvement revenue bonds of \$1.8 million, and student faculty housing revenue bonds of \$3.0 million. Revenue bonds for stadium improvement and student and faculty housing are paid with pledged net revenues. During the fiscal year the University entered in a capital lease agreement for \$87,775 for ten new pianos. For additional information on Debt Administration, see Notes 9, 10 and 11 in the Notes to the financial statements.

The University had \$8.0 million in construction in progress as of June 30, 2003. The vast majority of the construction is related to the building of the 1890 Extension Facility (\$4.8 million) the renovation of Hodge Hall (\$3.0 million). The University anticipates capitalizing the 1890 project after its completion in fiscal year 2004. The University reclassified from construction in progress to buildings \$371,220 for work completed in the Crawford Zimmerman building and the Fine Arts building. New capital equipment and machinery, with an individual cost of \$5,000 per item, was increased during the fiscal year by \$817,000.

### *Economic Outlook*

Although far from recovery, the economy in South Carolina appears to be on the upswing. If the upswing continues we are hopeful that the appropriations to higher education will improve. The past few years have resulted in budget reductions to the higher education institutions as well as to the other state agencies.

Nonetheless, South Carolina State University's overall financial position is sound. This year SCSU experienced an increase in its student enrollment and expects that trend to continue. Also, to offset the state's budget reductions and to adjust for inflation, SCSU has increased its tuition and fees. The combination of these has assisted in the financial enhancement and to the continued stability of the operations at SCSU.

SCSU has received from its inception special funding from the State's Education Lottery. These funds have been used to strengthen the financial position and public image by addressing some of the deferred maintenance issues and other operating deficiencies on the campus.

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF NET ASSETS**

**JUNE 30, 2003**

**ASSETS:**

**Current Assets:**

|   |                   |
|---|-------------------|
| Cash and cash equivalents   | \$ 6,131,102      |
| Accounts receivable, net of provision for doubtful accounts of \$2,512, | 6,174,959         |
| Current portion of note receivable                                      | 48,272            |
| Current portion of loans receivable                                     | 391,500           |
| Accrued interest receivable   | 58,794            |
| Prepaid expenses  | 181,887           |
| Inventories   | 709,718           |
| Total current assets  | <u>13,696,232</u> |

**Noncurrent Assets:**

|   |                   |
|---|-------------------|
| Restricted cash and cash equivalents                                    | 4,996,175         |
| Long-term accounts receivable   | 116,623           |
| Note receivable, net of current portion                                 | 124,145           |
| Loans receivable, net of current portion and provision for doubtful acc | 2,856,373         |
| Student loan fund deposit   | 35,000            |
| Investments   | 103,647           |
| Capital assets, net of accumulated depreciation                         | 46,745,190        |
| Total noncurrent assets   | <u>54,977,153</u> |
| Total assets  | <u>68,673,385</u> |

**LIABILITIES:**

**Current Liabilities:**

|  |                  |
|--|------------------|
| Accounts payable   | 2,569,729        |
| Retainages payable   | 23,072           |
| Accrued payroll and related liabilities                            | 1,770,233        |
| Accrued compensated absences and related benefits - current portio | 1,160,000        |
| Accrued interest payable   | 76,423           |
| Student deposits   | 63,541           |
| Refunds due to students  | 643,609          |
| Deferred and unearned student revenues                             | 1,740,385        |
| Due to State of South Carolina                                     | 402,434          |
| Due to General Fund of the State                                   | 577,449          |
| Leases payable - current portion                                   | 34,416           |
| Bonds payable - current portion                                    | 535,000          |
| Deposits held for others   | 150,036          |
| Other liabilities  | 137,021          |
| Total current liabilities  | <u>9,883,348</u> |

**Noncurrent Liabilities:**

|   |                   |
|---|-------------------|
| Accrued compensated absences and related benefits, net of current p | 1,739,782         |
| Leases payable, net of current portion                              | 95,203            |
| Bonds payable, net of current portion                               | 8,360,000         |
| Perkins liability   | 1,861,351         |
| Total noncurrent liabilities  | <u>12,056,336</u> |
| Total liabilities   | <u>21,939,684</u> |

**NET ASSETS:**

|   |                      |
|---|----------------------|
| Invested in capital assets, net of related debt | 41,720,571           |
| Restricted for:                                 |                      |
| Nonexpendable:                                  |                      |
| Scholarships and fellowships                    | 437,357              |
| Expendable:                                     |                      |
| State grants                                    | 750,021              |
| Scholarships and fellowships                    | 269,634              |
| Loans   | 1,876,332            |
| Unrestricted                                    | 1,679,786            |
| Total net assets                                | <u>\$ 46,733,701</u> |

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**OPERATING REVENUES:**

|  |                   |
|--|-------------------|
| Student tuition and fees (net of scholarship allowances of \$5,063,482)  | \$ 17,052,232     |
| Federal grants and contracts   | 21,886,154        |
| State grants and contracts   | 3,236,048         |
| Non-governmental grants and contracts  | 45,335            |
| Sales and services of education departments  | 322,534           |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,815,123)                           | 3,581,560         |
| Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$1,032,356) | 2,328,796         |
| Other operating revenues   | 1,431,651         |
| Other operating revenues pledged for revenue bonds   | 229,269           |
| Total operating revenues   | <u>50,113,579</u> |

**OPERATING EXPENSES:**

|                                      |                     |
|--------------------------------------|---------------------|
| Salaries, wages and related benefits | 46,243,364          |
| Supplies and other services          | 16,332,408          |
| Utilities                            | 2,369,465           |
| Scholarships                         | 7,638,979           |
| Stipends                             | 1,542,820           |
| Bad debts and loan cancellations     | 208,405             |
| Depreciation                         | 1,800,480           |
| Total operating expenses             | <u>76,135,921</u>   |
| Operating income (loss)              | <u>(26,022,342)</u> |

**NONOPERATING REVENUES (EXPENSES)**

|   |                   |
|---|-------------------|
| State appropriations  | 24,641,948        |
| Capital improvement bonds   | 447,040           |
| State grants  | 4,753,849         |
| Federal grants  | 14,236            |
| Gifts   | 375,333           |
| Investment income   | 539,341           |
| Interest and other fees on capital asset related debt                     | (333,182)         |
| Loss on disposal of assets  | (34,069)          |
| Net nonoperating revenue  | <u>30,404,496</u> |
| Income (loss) before other revenues, expenses, gains, or losses           | 4,382,154         |
| Capital improvement bonds for capital additions                           | 427,793           |
| Increase (decrease) in net assets before transfers and extraordinary item | <u>4,809,947</u>  |

**TRANSFERS:**

|  |           |
|--|-----------|
| Indirect costs remitted to General Fund of the State | (368,958) |
|--|-----------|

**EXTRAORDINARY ITEM:**

|  |                |
|--|----------------|
|  | <u>315,560</u> |
|--|----------------|

|                                   |           |
|-----------------------------------|-----------|
| Increase (decrease) in net assets | 4,756,549 |
|-----------------------------------|-----------|

**NET ASSETS - BEGINNING OF YEAR, AS RESTATED**

41,977,152

**NET ASSETS - END OF YEAR**

\$ 46,733,701

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |                     |
|---|---------------------|
| Student tuition and fees                                | \$ 26,780,180       |
| Grants and contracts                                    | 24,742,799          |
| Auxiliary enterprises                                   | 5,772,207           |
| Payments to suppliers                                   | (18,100,609)        |
| Payments to employees for salaries and related benefits | (46,168,555)        |
| Payment to State General Fund for indirect costs        | (347,613)           |
| Payments for stipends                                   | (1,542,820)         |
| Payments to students                                    | (9,603,255)         |
| Payments of scholarships                                | (7,638,979)         |
| Loans to students                                       | (600,986)           |
| Collection of loans                                     | 210,070             |
| Sales and services of education departments             | 322,534             |
| Inflows from Stafford loans                             | 16,295,820          |
| Outflows from Stafford loans                            | (16,207,249)        |
| Other receipts  | 1,778,792           |
| Other disbursements                                     | (293,235)           |
| Net cash flows (used) by operating activities           | <u>(24,600,899)</u> |

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:**

|  |                   |
|--|-------------------|
| State appropriations   | 24,641,948        |
| Gifts and grants for other than capital purposes               | 5,143,418         |
| Capital improvement bonds used for other than capital purposes | 521,743           |
| Repay cash overdraft   | (1,308,333)       |
| Net cash flow provided by noncapital financing activities      | <u>28,998,776</u> |

**CASH FLOW FROM CAPITAL AND RELATED FINANCING  
ACTIVITIES:**

|   |                  |
|---|------------------|
| Capital improvement bonds                   | 56,774           |
| Purchases of capital assets                 | (1,903,943)      |
| Principal paid on revenue bonds             | (385,000)        |
| Principal paid on capital leases            | (29,752)         |
| Proceeds from State Institution bonds       | 4,000,000        |
| Interest and fees paid                      | (324,913)        |
| Net cash flows (used) by capital activities | <u>1,413,166</u> |

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2003**

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|   |         |
|---|---------|
| Collections on note receivable                  | 34,483  |
| Interest on investments                         | 532,359 |
| Net cash flows provided by investing activities | 566,842 |

|   |           |
|---|-----------|
| Net increase in cash and cash equivalents | 6,377,885 |
|---|-----------|

|  |           |
|--|-----------|
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b> | 4,749,392 |
|--|-----------|

|  |               |
|--|---------------|
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b> | \$ 11,127,277 |
|--|---------------|

**Reconciliation of net operating income (loss)  
to net cash flow provided (used) by operating activities:**

|  |                 |
|--|-----------------|
| Operating income (loss)  | \$ (26,022,342) |
| Adjustments to reconcile net operating income (loss)<br>to net cash flow (used) by operating activities: |                 |
| Depreciation expense   | 1,800,480       |
| Bad debts and loan cancellations   | 208,405         |
| Extraordinary item reclassified to operating   | 315,560         |
| Indirect costs remitted reclassified to operating  | (368,958)       |
| Noncapital assets purchased under capital lease  | 39,224          |
| Changes in assets and liabilities:   |                 |
| Receivables  | (1,159,622)     |
| Inventories  | (61,799)        |
| Loans to students  | (390,916)       |
| Prepaid expenses   | (86,006)        |
| Accounts payable   | 394,973         |
| Accrued payroll and related liabilities  | (63,324)        |
| Deferred and unearned student revenue  | 244,100         |
| Refunds due to students  | 109,764         |
| Perkins liability  | 144,800         |
| Student deposits   | (9,173)         |
| Accrued compensated absences and related benefits  | 138,133         |
| Other liabilities  | 165,802         |
| Net cash (used) by operating activities  | \$ (24,600,899) |

**Noncash capital and related financing activities:**

The University disposed of capital assets with a cost of \$110,913 and accumulated depreciation of \$77,513 during the year. Capital assets with a cost of \$15,774 and accumulated depreciation of \$12,024 were traded in during the year.

The University borrowed \$87,775 under capital leases during the year. \$48,551 was used to purchase capital assets and \$39,224 was used to purchase noncapital assets.

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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

**Nature of Operations:** South Carolina State University (the University) is a State-supported coeducational institution of higher education. The University serves local, regional, state, national, and international communities by providing academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the public.

**Reporting Entity:** The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the University.

The University is part of the primary government of the State of South Carolina.

**Basis of Accounting:** For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

**Cash and Cash Equivalents:** For purposes of the financial statements, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

**Investments:** The University accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

**Accounts Receivable:** Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise sales and services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts and for reimbursements of other expenses. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories:** Inventories are valued at the lower of cost or market and consists primarily of books and items for sale in the campus bookstore.

**Capital Assets:** Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. Depreciation is calculated based on the number of months the item is in use during the year.

**Deferred Revenues:** Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences:** Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as components of compensation and benefit expenses in the statement of revenues, expenses, and changes in net assets.

**Perkins Loans Receivable and Related Liability:** The loans receivable on the balance sheet are due to the University under the Perkins loan program. This program is funded primarily by the federal government with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program which would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

**Net Assets:** The University's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

**Income Taxes:** The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

**Classification of Revenues:** The University has classified its revenues as either operating or nonoperating according to the following criteria:

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

*Operating revenues:* Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

**Sales and Services of Educational and Other Activities:** Revenues from sales and services of educational and other 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 community groups using campus facilities for summer camps and other activities.

**Auxiliary Enterprises and Internal Service Activities:** Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

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

**Donor Restricted Assets:** The University policy for the treatment of net appreciation (depreciation) on investments of donor restricted endowments increases or decreases the principal. If a donor has not provided specific instructions, State law allows the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of the endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority of investing State funds. The following schedules reconciles deposits and investments within the notes to the statement of net assets:

| <u>Statement of Net Assets</u>                      |                      | <u>Footnotes</u>                    |                      |
|---|----------------------|-------------------------------------|----------------------|
| Cash and cash equivalents (current)                 | \$ 6,131,102         | Deposits held by State Treasurer    | \$ 10,775,808        |
| Restricted cash and cash equivalents (non-current): |                      | Other deposits                      | 351,469              |
| Loan funds  | 255,154              | Investments held by State Treasurer | 95,900               |
| Bond proceeds                                       | 3,991,000            | Other investments                   | 7,747                |
| Education lottery                                   | 750,021              |                                     |                      |
| Investments   | 103,647              |                                     |                      |
|   | <hr/>                |                                     |                      |
| Total   | <u>\$ 11,230,924</u> | Total                               | <u>\$ 11,230,924</u> |

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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 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.

Other Deposits

The University's other deposits are entirely insured or collateralized with deposits held by the University or by its agent in the University's name. The bank balance and carrying amount of these deposits was \$226,545 and \$351,469 respectively at June 30, 2003.

Investments Held by State Treasurer

These investments consist of Series 1984 Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer until they mature in 2035. While outstanding, the State is required to pay the University 6% per year. Because there is no readily determinable fair value for these investments, they have been assigned a fair value equal to their historical costs.

Other Investments

This category consists of investments in common stocks which are stated at fair value and include unrealized appreciation of \$1,242. Purchases and sales are accounted for on the trade date.

The University's investments are categorized to give an indication of the level of risk assumed by the University 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 entity 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.

A summary of these investments at June 30, 2003, by category of credit risk follows:

|              | <u>Category</u> |          |          | <u>Reported<br/>Amount</u> | <u>Fair Value</u> |
|--------------|-----------------|----------|----------|----------------------------|-------------------|
|              | <u>1</u>        | <u>2</u> | <u>3</u> |                            |                   |
| Common Stock | <u>\$ 7,747</u> |          |          | <u>\$ 7,747</u>            | <u>\$ 7,747</u>   |

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

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2003, are summarized as follows:

|  |                            |
|--|----------------------------|
| Tuition and fees                         | \$ 3,042,291               |
| Auxiliary enterprises                    | 1,149,805                  |
| Less allowance for doubtful accounts     | (2,512,058)                |
| Federal grants and contracts             | 3,858,643                  |
| State grants and contracts               | 93,330                     |
| Local and private grants and contracts   | 1,686                      |
| Due from South Carolina State Foundation | 106,438                    |
| Restitution receivable                   | 126,912                    |
| Other                                    | <u>424,535</u>             |
| Net accounts receivable                  | <u><u>\$ 6,291,582</u></u> |

The amounts shown above are reported at gross with all discounts and allowances disclosed.

The restitution receivable is due in monthly payments of \$485. No payments have been received since September 2002.

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2003, the allowance for uncollectible student accounts is valued at \$2,512,058.

**NOTE 4 – LOANS AND NOTES RECEIVABLE**

Loans receivable at June 30, 2003 consist of the following:

|                                   |                            |
|-----------------------------------|----------------------------|
| Perkins Loan Program              | \$ 1,764,419               |
| Student Emergency Loan Fund       | 9,656                      |
| African American Loan Fund        | 1,153,579                  |
| Education Improvement Act         | 627,968                    |
|                                   | <u>3,555,622</u>           |
| Less allowance for doubtful loans | <u>(307,749)</u>           |
|                                   | <u><u>\$ 3,247,873</u></u> |

Notes receivable consists of a mortgage loan with an original principal amount of \$206,900 and a current balance of \$172,417 due in connection with the sale of capital assets. Principal payments of \$3,448 are due on the 1<sup>st</sup> day of each and commenced July 1, 2002. Ten monthly payments were received during the year. The note does not provide for any interest.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2003 is summarized as follows:

|   | Beginning<br>Balance<br>July 1, 2002<br>As Restated | Increases          | Decreases           | Ending<br>Balance<br>June 30, 2003 |
|---|---|--------------------|---------------------|------------------------------------|
| Capital assets not being depreciated:                 |   |                    |                     |                                    |
| Land and improvements                                 | \$ 1,568,558  | \$ -               |                     | \$ 1,568,558                       |
| Construction in-progress                              | 7,289,852   | 1,097,098          | (371,220)           | 8,015,730                          |
| Total capital assets not being depreciated            | <u>8,858,410</u>                                    | <u>1,097,098</u>   | <u>(371,220)</u>    | <u>9,584,288</u>                   |
| Other capital assets:                                 |   |                    |                     |                                    |
| Buildings and improvements                            | 68,012,284  | 371,220            |                     | 68,383,504                         |
| Machinery, equipment, and other                       | 7,395,348   | 817,911            | (126,687)           | 8,086,572                          |
| Vehicles  | 762,978   | 10,675             |                     | 773,653                            |
| Total other capital assets at historical cost         | <u>76,170,610</u>                                   | <u>1,199,806</u>   | <u>(126,687)</u>    | <u>77,243,729</u>                  |
| Less accumulated depreciation for:                    |   |                    |                     |                                    |
| Buildings and improvements                            | (32,330,719)  | (1,249,975)        |                     | (33,580,694)                       |
| Machinery, equipment, and other                       | (5,565,108)   | (480,454)          | 89,537              | (5,956,025)                        |
| Vehicles  | (476,057)   | (70,051)           |                     | (546,108)                          |
| Total accumulated depreciation                        | <u>(38,371,884)</u>                                 | <u>(1,800,480)</u> | <u>89,537</u>       | <u>(40,082,827)</u>                |
| Other capital assets, net of accumulated depreciation | <u>37,798,726</u>                                   | <u>(600,674)</u>   | <u>(37,150)</u>     | <u>37,160,902</u>                  |
| Capital assets, net of accumulated depreciation       | <u>\$ 46,657,136</u>                                | <u>\$ 496,424</u>  | <u>\$ (408,370)</u> | <u>\$ 46,745,190</u>               |

See note 17 for details of prior period adjustments.

**NOTE 6 – PENSION PLAN**

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.

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 for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

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

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7 percent which included a 3.15 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, 2003, 2002, and 2001, were approximately \$2,118,000, \$2,151,000 and \$2,037,000, 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 approximately \$42,000 in the current fiscal year at the rate of .15 percent of compensation. In addition to the \$2,118,000, the University paid approximately \$55,000 for the employee's share of contributions while the employee was on furlough.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. 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.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 13.45 percent which, as for the SCRS, included the 3.15 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2003, 2002, and 2001, were approximately \$55,000, \$66,000, and \$70,000, 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 \$1,200 and accidental death insurance contributions of approximately \$1,200 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation. In addition to the \$55,000, the University paid approximately \$1,200 for the employee's share of contributions while the employee was on furlough.

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 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 3.15 percent from the employer in fiscal year 2003.

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 \$257,000 (excluding the surcharge) from the University as employer and approximately \$196,000 from its employees as plan members. 5.7 percent of the total contributions was remitted to the Retirement Division of the State Budget and Control Board. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies. In addition to the \$257,000, the University paid approximately \$8,000 attributable to the employee's share of contributions while the employee was on furlough. Also, the University paid employer group-life insurance contributions of approximately \$5,100 in the current fiscal year at the rate of .15 percent of compensation.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement 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.

**NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE 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. Approximately 24,000 retirees met these requirements as of June 30, 2002.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately \$2,720,000 for the year ended June 30, 2003. As discussed in Note 6, the University paid approximately \$877,000 applicable to the 3.15 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.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

**NOTE 8 – CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS**

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position except as noted in the following paragraph.

The University was a party to a lawsuit seeking damages against the University relating to the termination of a construction contract that occurred in a prior year. The matter was heard for the third time on June 19, 2002 before the South Carolina Procurement Review Panel during which the Panel reaffirmed its earlier decision and awarded the claimants \$1,265,560 including interest of approximately \$322,000. This amount was included in accounts payable on the statement of net assets and reported as an extraordinary item on the statement of activities during the fiscal year ending June 30, 2002. The University negotiated a lower settlement amount with the claimant and paid \$950,000 in July 2003. The \$315,560 reduction in the liability is recorded as an extraordinary item.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. \$952,934 of cost were questioned in the prior year because the University did not match the federal expenditures with other funds as required. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$1,940,000 on projects that will be capitalized and \$83,000 which will not be capitalized at June 30, 2003. The University anticipates funding these projects out of current resources, private gifts, student fees and State capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$10,535,804 of undrawn State capital improvement bonds.

**NOTE 9 – LEASE OBLIGATIONS**

Future commitments for capital leases and operating leases with remaining terms more than one year as of June 30, 2003 were as follows:

|   | Year Ended<br>June 30, | Capital<br>Leases | Operating<br>Leases |
|---|------------------------|-------------------|---------------------|
|   | 2004                   | \$ 46,891         | \$ 69,589           |
|   | 2005                   | 46,891            | 25,378              |
|   | 2006                   | 33,569            | 2,424               |
|   | 2007                   | 24,054            | 808                 |
|   | 2008                   | 2,005             |                     |
|   |                        | <u>153,410</u>    | <u>98,199</u>       |
| Total Minimum Lease Payments            |                        | \$ 153,410        | \$ 98,199           |
| Less Interest                           |                        | (23,791)          |                     |
| Present Value of Minimum Lease Payments |                        | <u>\$ 129,619</u> |                     |

**SOUTH CAROLINA STATE UNIVERSITY  
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Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources to external parties. Certain capital leases provide for renewal and/or purchase options. During the current fiscal year, the University entered into a capital lease agreement for \$87,775 for ten new pianos of which only two pianos with a total costs of \$48,551 met the University's capitalization policy. The cost of assets held under capital leases totaled \$149,410 as of June 30, 2003. Accumulated amortization of the leases on this equipment totaled \$48,272 at June 30, 2003. Current years amortization expense on capital leases was \$33,143 which is included in depreciation expense. Interest expense on capital leases was \$21,160 for the fiscal year.

Operating Leases

The University's noncancelable operating leases are primarily for the use of copier and computer equipment which expires in fiscal years 2004 through 2006. All leases are with external parties. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. In addition, the University pays an additional charge per copy for excess usage on certain copiers and has certain copier leases on which it pays based solely on usage. Total rental payments under operating leases were approximately \$675,000 for fiscal year 2003. Approximately \$337,000 of the \$675,000 was for contingent rentals.

**NOTE 10 – BONDS AND NOTES PAYABLE**

Bonds Payable

Bonds payable consisted of the following at June 30, 2003:

|                                     | Interest<br>Rates | Maturity<br>Dates | Balance      |
|-------------------------------------|-------------------|-------------------|--------------|
| Stadium Improvement Revenue         |                   |                   |              |
| Bonds, Series 1993A                 | 4.4 – 5.5%        | 2004 – 2013       | \$ 1,880,000 |
| Student and Faculty Housing Revenue |                   |                   |              |
| Bonds, Series 1991A                 | 6.05 – 6.7%       | 2004 – 2012       | 3,015,000    |
| State Institution                   |                   |                   |              |
| Bonds, Series 2003G                 | 1.1 – 4.125%      | 2004 – 2023       | 4,000,000    |
| Total bonds payable                 |                   |                   | \$ 8,895,000 |

Revenue received for dormitory and married student housing and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. All stadium revenue, which includes admission fees, is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on stadium improvement revenue bonds.

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

During the current year, the University borrowed \$4,000,000 through State Institution Bonds. 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 are pledged for the payment of principal and interest on these bonds.

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For the stadium improvement revenue bonds, the University must maintain its admission fees and special student fees at amounts necessary to maintain certain specified funding requirements. For the student and faculty housing revenue bonds, the University must generate net revenues available for debt service of not less than 120 percent of debt service payments due in each bond year. The University fell short of the stadium improvement revenue bonds revenue requirement by approximately \$21,000.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2003, in whole at any time or in part on any January 1 or July 1, upon thirty (30) days notice, at par. The student and faculty housing revenue bonds are subject to redemption prior to their maturity, at the option of the University, in whole at any time or in part on any June 1 or December 1, upon thirty (30) days notice, at par. As of fiscal year-end, none of these bonds have been called for redemption.

The State Institution Bonds maturing on and after June 1, 2014 are subject to redemption in whole or if in part on June 1, 2013 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, 2013 and December 1, 2013 at 101 percent; June 1, 2014 and thereafter at par.

All of these bonds are payable in semiannual installments plus interest.

Scheduled amounts including interest required to complete payment of the student and faculty housing revenue bond obligations as of June 30, 2003 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u>   | <u>Interest</u>    | <u>Total</u>       |
|----------------------------|--------------------|--------------------|--------------------|
| 2004                       | 260,000            | 194,192            | 454,192            |
| 2005                       | 275,000            | 178,463            | 453,463            |
| 2006                       | 290,000            | 161,550            | 451,550            |
| 2007                       | 310,000            | 143,425            | 453,425            |
| 2008                       | 330,000            | 123,895            | 453,895            |
| 2009 through 2012          | <u>1,550,000</u>   | <u>266,550</u>     | <u>1,816,550</u>   |
| Totals                     | <u>\$3,015,000</u> | <u>\$1,068,075</u> | <u>\$4,083,075</u> |

Scheduled amounts as of June 30, 2003, including interest required to complete payment of the stadium improvement revenue bonds are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|----------------------------|---------------------|-------------------|---------------------|
| 2004                       | \$ 155,000          | \$ 95,512         | \$ 250,512          |
| 2005                       | 155,000             | 88,692            | 243,692             |
| 2006                       | 165,000             | 81,640            | 246,640             |
| 2007                       | 170,000             | 73,885            | 243,885             |
| 2008                       | 180,000             | 65,640            | 245,640             |
| 2009 through 2013          | <u>1,055,000</u>    | <u>177,590</u>    | <u>1,232,590</u>    |
| Totals                     | <u>\$ 1,880,000</u> | <u>\$ 582,959</u> | <u>\$ 2,462,959</u> |

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Scheduled amounts including interest required to complete payment of the State Institutional bond obligations as of June 30, 2003 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|----------------------------|---------------------|---------------------|---------------------|
| 2004                       | \$ 120,000          | \$ 149,806          | \$ 269,806          |
| 2005                       | 130,000             | 143,806             | 273,806             |
| 2006                       | 130,000             | 137,307             | 267,307             |
| 2007                       | 140,000             | 130,806             | 270,806             |
| 2008                       | 150,000             | 123,807             | 273,807             |
| 2009 through 2013          | 850,000             | 547,931             | 1,397,931           |
| 2014 through 2018          | 1,090,000           | 396,231             | 1,486,231           |
| 2019 through 2023          | 1,390,000           | 173,481             | 1,563,481           |
| Totals                     | <u>\$ 4,000,000</u> | <u>\$ 1,803,175</u> | <u>\$ 5,803,175</u> |

The University reported principal retirements and interest expense related to the bonds payable for the year ended June 30, 2003 as follows:

| <u>Bond Type</u>                    | <u>Principal</u>            | <u>Interest</u>   |
|-------------------------------------|-----------------------------|-------------------|
| Student and Faculty Housing Revenue | \$ 245,000                  | \$ 207,443        |
| Stadium Improvement Revenue         | 140,000                     | 98,523            |
| State Institution                   | <u>                    </u> | <u>4,994</u>      |
| Totals                              | <u>\$ 385,000</u>           | <u>\$ 310,960</u> |

**NOTE 11 – LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2003 was as follows:

|  | <u>Balances<br/>June 30,<br/>2002</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Balances<br/>June 30,<br/>2003</u> | <u>Due within<br/>One year</u> |
|--|---------------------------------------|---------------------|---------------------|---------------------------------------|--------------------------------|
| Accrued compensated absences<br>and related benefits | \$ 2,761,649                          | \$ 1,294,173        | \$ 1,156,040        | \$ 2,899,782                          | \$ 1,160,000                   |
| Bonds payable  | 5,280,000                             | 4,000,000           | 385,000             | 8,895,000                             | 535,000                        |
| Capital leases payable                               | <u>71,596</u>                         | <u>87,775</u>       | <u>29,752</u>       | <u>129,619</u>                        | <u>34,416</u>                  |
| Totals   | <u>\$ 8,113,245</u>                   | <u>\$ 5,381,948</u> | <u>\$ 1,570,792</u> | <u>\$ 11,924,401</u>                  | <u>\$ 1,729,416</u>            |

Additional information regarding bonds payable is included in Note 10. Additional information regarding capital lease obligations is included in Note 9.

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**NOTE 12 – 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 South Carolina State Educational Foundation (the Foundation), the S.T.A.T.E. Club and the South Carolina State Alumni Association. Financial statements are not available for these entities. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the Foundation described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, issued in May 2002, provides additional guidance which must be evaluated. In conjunction with the implementation of this statement the requirements for including these related parties will be reassessed. This statement is effective for the financial statement periods beginning after June 15, 2003 and the financial statements of the Foundation will be included as part of the University's financial statements for the fiscal year beginning July 1, 2003.

The University's financial statements include \$106,438 due from the Foundation for reimbursement of various personnel and other costs. This amount is included in long-term accounts receivable on the statement of net assets.

Various financial activities occurred between the University and the Foundation. A summary of transactions for the year ended June 30, 2003 follows:

|   |            |
|---|------------|
| Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.   | \$ 292,188 |
| Stipends paid by the University and funded by the Foundation. The University recorded these amounts as gift revenue and stipend expense.  | \$ 14,568  |
| Scholarships awarded by the Foundation directly to students. These amounts are not recorded in the University's financial statements.   | \$ 52,292  |
| Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expense. | \$ 64,428  |
| The Foundation purchased various food services and items from the University which is recorded as sales and services of auxiliary enterprises   |            |
| The University paid rent to the Foundation for the use of certain land located next to the University.  | \$ 23,486  |
| The University reimbursed the Foundation for costs associated with the operation of the State Room at the Columbia Metropolitan Airport.  | \$ 9,685   |
| The Foundation and the S.T.A.T.E. Club made various payments on behalf of the University that are not recorded in its financial statements.   | \$ 68,817  |

**SOUTH CAROLINA STATE UNIVERSITY  
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**NOTE 13 – 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. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina 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 the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

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

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

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

**SOUTH CAROLINA STATE UNIVERSITY  
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**NOTE 14 – STATE APPROPRIATIONS**

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2003:

NON-CAPITAL APPROPRIATIONS

Current year's appropriations:

|   |                |
|---|----------------|
| Original appropriations per Annual Appropriations Act       | \$ 25,749,543  |
| Mid-year appropriation reductions                           | (2,209,601)    |
| Supplemental appropriations (Proviso 63C.9)                 | 86,399         |
| Supplemental appropriations for Business School             |                |
| Accreditation and Transportation Center (Proviso 5A.30)     | 846,156        |
| From State Department of Education for Felton<br>Lab School | <u>169,451</u> |

Total non-capital appropriations recorded as current year revenue \$ 24,641,948

CAPITAL IMPROVEMENT BONDS PROCEEDS

|  |                  |
|--|------------------|
| Current year receipts                        | \$ 574,265       |
| Add prior year deferred revenue, as restated | 703,002          |
| Less, current year deferred revenue          | <u>(402,434)</u> |

Total capital improvement bonds proceeds recorded as current year revenue \$ 874,833

**NOTE 15 – STATEMENT OF ACTIVITIES**

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

|   |                             |
|---|-----------------------------|
| Charges for services                          | \$ 25,514,117               |
| Operating grants and contributions            | <u>30,543,540</u>           |
|   | 56,057,657                  |
| Less: expenses                                | <u>(76,764,491)</u>         |
| Net program revenue                           | <u>(20,706,834)</u>         |
| Transfers:                                    |                             |
| State appropriation/capital improvement bonds | 25,516,781                  |
| Transfers out to state agencies               | <u>(368,958)</u>            |
| Total general revenue and transfers           | <u>25,147,823</u>           |
|   | 4,440,989                   |
| Extraordinary item                            | <u>315,560</u>              |
| Increase in net assets                        | 4,756,549                   |
| Net assets-beginning as restated              | <u>41,977,152</u>           |
| Net assets-ending                             | <u><u>\$ 46,733,701</u></u> |

**SOUTH CAROLINA STATE UNIVERSITY  
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**JUNE 30, 2003**

**NOTE 16. SUBSEQUENT EVENTS**

The Board of Trustees approved the refinancing of the student and faculty housing revenue bonds in order to save costs over the remaining life of the bonds.

**NOTE 17. PRIOR PERIOD ADJUSTMENTS**

The University made adjustments to correct the balances of various assets and liabilities as of June 30, 2002 as detailed below.

|  |                      |
|--|----------------------|
| Net assets, July 1, 2002, as previously reported     | \$ 44,188,498        |
| Corrections of errors:                               |                      |
| Adjust carrying value of buildings                   | (18,862)             |
| Adjust construction in progress                      | (215,805)            |
| Adjust carrying value of furniture and equipment     | 133,731              |
| Adjust retainages payable                            | 128,699              |
| Adjust accrued payroll and related liabilities       | (529,421)            |
| Adjust capital improvement bond receivable           | (4,252)              |
| Record deferred revenue on capital improvement bonds | (698,750)            |
| Adjust account receivable due from Foundation        | (184,884)            |
| Adjust Federal grants receivable                     | (95,751)             |
| Adjust private grants receivable                     | (20)                 |
| Adjust State grants receivable                       | (363)                |
| Adjust deferred revenue attributable to grants       | (18,015)             |
| Adjust student accounts receivable                   | (251,884)            |
| Adjust refunds due to students                       | (455,769)            |
|  | <hr/>                |
| Net assets, July 1, 2002, as restated                | <u>\$ 41,977,152</u> |

**NOTE 18. RECLASSIFICATIONS**

The University reclassified certain amounts on the Statement of Cash Flows. In the prior year, approximately \$16,289,000 of inflows and \$16,159,000 of outflows from Stafford loans and other agency funds were classified as noncapital financing activities. In the current year, they are classified as cash flows from and used for operating activities.