December 10, 1998

The Honorable David M. Beasley, Governor
and
Members of the South Carolina Educational Television Commission
South Carolina Educational Television Commission
Columbia, South Carolina

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

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLW/tdc

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the South Carolina Educational Television Commission ("the Commission") as of and for the year ended June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 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, the financial statements of the South Carolina Educational Television Commission are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the South Carolina Educational Television Commission, an agency of the State.

Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000 compliant;
- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and
- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

The Commission has omitted such disclosures. We do not provide assurance that the Commission is or will be year 2000 ready, that the Commission's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commission does business will be year 2000 ready.

In our opinion, except for the omission of the information described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Educational Television Commission as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in Note 19 to the financial statements, the Commission changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Also, as described in Note 19, errors in the application of accounting principles regarding the proper classification of certain revenues and expenditures and the recording of certain assets and liabilities were discovered by management of the Commission during the current year.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 1998, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Columbia, South Carolina
November 24, 1998

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Educational Television Commission (the Commission) conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission's significant accounting principles are described below.

Reporting Entity

Effective July 1, 1993, the Commission adopted the provisions of GASB Statement 14, The Financial Reporting Entity. In conjunction with its implementation of GASB 14, management reviewed its relationship with the related party described in Note 12. The Commission excludes ETV Endowment of South Carolina, Inc. ("the Endowment") from the reporting entity because using GASB 14 criteria the Endowment is not fiscally dependent on the Commission. In addition, the Commission is not involved and has no authority with respect to the appointment of the Endowment's Board of Directors. Summarized financial information of the Endowment is presented in Note 12. As part of its affiliated organization project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Endowment may become a component unit of the Commission and part of the financial reporting entity.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Commission has determined it has no component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

The Commission is responsible for the administration of the South Carolina Educational Television Network systems. The Commission is an agency of the State of South Carolina established by Section 59-7-10 of the Code of Laws of South Carolina.

The Governor appoints the members of the Commission with the advice and consent of the Senate. The Commission members are the governing body of the Commission. The funds and account groups of the Commission are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government.

The Commission is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the Commission. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Commission operates somewhat autonomously, it lacks full corporate powers. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Commission.

Basis of Presentation and Description of Funds

The financial statements of the Commission are presented in accordance with generally accepted accounting principles applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Commission uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein. These accounts are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Commission only has one fund category, governmental fund types. The Commission reports its activity in three types of governmental fund types: general, special revenue and capital projects.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), and the acquisition, construction, and maintenance of general fixed assets (capital projects funds). Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance.

General Fund - The general fund accounts for all activities except those required to be accounted for in another fund. Revenues include the annual state appropriation as approved by the General Assembly, Corporation for Public Broadcasting, Inc. (CPB) grant funds, program sales, royalties, charges for services, contributed support and cost reimbursements. The revenues are used for general ongoing governmental services such as administration, maintenance, program development and production, transmission and reception of programs, and debt service. Program sales revenues report amounts received from State agencies, the ETV Endowment and others for services related to and for support of programming, production and broadcasting of programs. The Commission reports as charges for services revenue income from the ETV Endowment primarily for reimbursement of administrative services and other costs and income from State agencies and other entities for services not related to production of programs and for certain equipment.

In addition, the general fund includes the receipts and disbursements of monies from other state agencies related to the dual employment of Commission employees and receipts (charges for services) and disbursements (equipment purchased for resale) of monies used for equipment purchased for resale related to the satellite installation of school districts program authorized by the General Assembly.

Special Revenue Fund - The special revenue fund generally records the expenditure of revenues and contributions that are restricted to specific programs or projects. Revenues and contributions are derived from grants that are restricted for certain purposes. The special revenue fund recognizes revenue when the expenditure is incurred. Included in the special revenue funds are Education Improvement Act grants.

Capital Projects Fund – The capital projects fund accounts for financial resources to be used for the acquisition of equipment or the construction of capital projects either when the project extends beyond a single fiscal year or the equipment expenditures are acquired with capital improvement bond proceeds or Capital Reserve Fund appropriations. Resources are derived from capital improvement bond proceeds issued by the State of South Carolina, Capital Reserve Fund appropriations, as well as State appropriations, and funding from grants and private sources. The fund balance account related to these capital projects is titled reserved for capital projects and equipment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Account Groups

General Fixed Assets Account Group – General fixed asset acquisitions require the use of governmental fund financial resources and are recorded as expenditures but they are not assets of any fund but of the governmental unit as an instrumentality. Equipment and building additions are recorded as expenditures of the general, special revenue or capital projects funds upon acquisition and simultaneously capitalized at cost in the general fixed asset account group. Equipment additions that are obtained through installment agreements are capitalized in the general fixed assets account group in the year of acquisition at their total costs, excluding interest charges. Payments of principal and interest on such agreements are recorded as equipment, debt service, or other expenditures within the applicable program category of the general fund when the installment agreement payments are made. When an improvement is placed in service, it is then reclassified from construction in progress to the appropriate improvement classification, as applicable. Construction expenditures are recorded at cost when incurred and simultaneously capitalized as construction in progress in the general fixed assets account group. Generally, capital improvements are funded through annual appropriations by the General Assembly, Capital Reserve Fund appropriations or State Capital Improvement Bond proceeds.

The current policy of the Commission is to capitalize items costing $500 or more, with a minimum expected useful life of three years. Prior to this year, the Commission capitalized television sets, monitors, video recorders and players regardless of costs and office furnishings having a unit cost in excess of $150. Assets contributed by another state agency are recorded at the acquisition cost to that agency. Other donated assets are recorded at fair market value at the date of the gift. In accordance with generally accepted accounting principles for governmental entities, a provision for depreciation of general fixed assets is not recorded.

Interest cost incurred, less any interest earnings on borrowed funds, on significant capital improvements is capitalized as a cost of the project during the construction period. Land is capitalized when purchased at cost. Improvements to land are capitalized when complete at cost.

Certain equipment, such as land improvements and transmission and reception towers, of the Commission could be considered infrastructure since the assets are immovable and may be considered "public domain". These assets are capitalized in the general fixed assets account group.

General Long-Term Debt Account Group - This account group is used to account for the outstanding balance of any unmatured general long-term liabilities that are expected to be financed from governmental funds. These liabilities include compensated absences and the principal portion owed on notes payable and capital lease obligations.

Basis of Accounting

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types. Under this method, revenues and other fund financial resources are recognized when they become measurable and available to finance expenditures of the current fiscal year. Reimbursement type grants for the Commission are recorded as revenue when the related expenditures are incurred. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due. Further, inventory items are reported as expenditures when purchased and payments for insurance and similar services benefiting more than one period are recognized as an expenditure in the year of payment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budget Policy

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.9 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP basis is presented in Note 2.

The Statement of Expenditures – Budget and Actual – Total Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item level of expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures for each fiscal year.

Cash and Cash Equivalents

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents (Continued)

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 4.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the Commission's special deposit accounts is posted to the Commission's account at the end of each month and is retained by the Commission. Interest/investment earnings are allocated based on the percentage of the Commission's accumulated daily interest receivable to the income receivable of the pool.

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

Cost Incurred for Programs Not Telecast

Cost incurred for programs not telecast is accounted for using the purchase method whereby these costs are recorded as expenditures when the expenditure is incurred and the cost incurred for programs not telecast at year end is reflected at cost in the asset section of the balance sheet. For financial statement purposes, costs incurred for programs not telecast as of each year end are offset by a reserved fund balance account.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1998. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Balance

The equity section of the balance sheet is comprised of two major fund balance elements: reserved and unreserved, designated, or unreserved, undesignated. Reserves either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriable for future discretionary expenditures. The reserved portion represents amounts that are legally segregated for a specific use; the remaining portion of fund balance should be reported as unreserved. Designated unreserved fund balances represent tentative plans for future use of financial resources. All other current resources are shown as unreserved, undesignated on the balance sheet.

Contributed Support

Contributed support consisting of expenditures incurred on behalf of the entity is recorded as revenues and expenditures in the general fund as services are provided. The principal portion of contributed support is provided by the ETV Endowment of South Carolina. Additional support is provided by State agencies and various school districts in the state. Support by these entities consists of payment on behalf of the Commission in the areas of program production or purchase, such as advertising, project development, general and administrative expenditures and fund raising expenditures which are reported primarily in cultural and performing arts general support and service expenditures at the actual cost to the contributing entity. See Note 19 regarding reporting in prior years.

Interfund Transactions

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers in the period in which the interfund receivable or payable arises. There were no interfund transfers during the fiscal year ended June 30, 1998.

Program Library

The Commission maintains a collection of all programs telecast by the Commission since inception. As records and values for the cost associated with these programs do not exist, the Commission does not capitalize the collection in its general fixed assets account group.

Deferred Revenue

Deferred revenue in the general fund is recorded for receivables that are measurable but not available at year-end. Deferred revenue reflected within the special revenue funds consist of certain revenue received before services were rendered.

CPB Grants

The Commission annually receives a grant from the Corporation for Public Broadcasting, Inc. (CPB). The CPB is a non-federal, non-governmental, not-for-profit organization that receives grants from the federal government, the private sector, and other sources. The CPB then allocates grants to public television stations nationwide for community service and these funds are unrestricted for broadcasting operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. BUDGETARY REPORTING BASIS:

The financial statements prepared on the legally enacted basis differ from the GAAP basis statements. Not all of the Commission's accounts and funds are included in the Commissions total funds authorized by the General Assembly. Consequently, the statement of expenditures – budget and actual – total budgeted funds presents only those funds for which a legal basis budget was enacted. Because the contributed support accounts of the General Fund are unbudgeted, they are not included in the budgetary comparison statements. Otherwise, the statement includes the General Fund, Special Revenue Funds and Capital Projects Funds.

Adjustments from the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassification from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits and removal of unbudgeted amounts.

	Financial Statement Fund Type			Budgetary Fund Category	
	General	Special Revenue	Capital Projects	General Fund	Other
Expenditures on GAAP Basis	$44,712,336	$1,002,149	$3,020,685	$	$
Fund reclassifications:					
State appropriation	(18,971,546)			18,971,546	
Grants	(4,075,190)	(1,002,149)	(960,106)		6,037,445
Other	(8,767,163)		(2,060,579)		10,827,742
Unbudgeted	(12,898,437)				
Net accruals:					
Personal services and employer contributions				(19,432)	16,665
Expenditures on legal basis	$ - 0 -	$ - 0 -	$ - 0 -	$18,952,114	$16,881,852

NOTE 3. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriation Act for the period ended June 30, 1998 as originally enacted by the General Assembly to appropriation revenue as reported in the general fund.

Original appropriations	$18,766,317
Allocations by State Budget & Control Board:	
Employee base pay increase (Proviso 17C.17)	170,809
Employer contributions (Proviso 72.21)	26,885
Total Quality Management program (Proviso 17A.2)	12,108
Adjusted Appropriations, Budgetary Basis	18,976,119
Accrual adjustments:	
Funding for personal services and employer contributions	19,432
Accrual basis state appropriation revenue	$18,995,551

NOTE 3. STATE APPROPRIATION: (CONTINUED)

The total amount of 1998 State appropriated funds authorized to be carried forward to fiscal year 1999 was $252,818. This carryover consisted of $545 for Total Quality Management appropriated in fiscal year 1998 and $252,273 of unspent fiscal year 1998 appropriations for general operating expenditures. Proviso 72.48 of the 1998-1999 Appropriations Act under which the $252,273 was carried forward, allows for a carryforward of unspent fiscal year 1997-1998 appropriations up to a maximum 10% of the Commission's original appropriation less any reduction to the 1997-1998 fiscal year excluding amounts carried forward under separate carryforward authority. The $545 was carried forward pursuant to Proviso 63A.2. of the 1998-1999 Appropriations Act. The $545 is reported as a reserved fund balance and the $252,273 is reported as an unreserved, undesignated fund balance in the general fund.

The amount of 1997 State appropriated authorized funds to be brought forward to fiscal year 1998 was $228,183 under Proviso 72.44 of the 1998 Appropriation Act for fiscal year 1997-1998 expenditures. The proviso allowed for a carry forward of up to a maximum of 10% of its original appropriation less any reductions. $9,254 was brought forward under Proviso 17A.2 of the 1997-1998 Appropriations Act for fiscal year expenditures for Total Quality Management training. This proviso allows unspent funds to be carried forward to the next fiscal year.

NOTE 4. DEPOSITS:

All deposits of the Commission are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

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

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$9,878,358	Petty Cash	$ 200
		Deposits Held by State Treasurer	9,878,158
Totals	$9,878,358	Totals	$9,878,358

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

Cash and cash equivalents reported on the balance sheet and interest/investment income reported on the statement of revenues, expenditures and changes in fund balance include $42,664 in unrealized gains as of June 30, 1998.

NOTE 5. CHANGES IN GENERAL FIXED ASSETS:

A summary of changes in general fixed assets for the fiscal year ended June 30, 1998 follows:

	Balance, July 1, 1997	Prior Period Adjustments (B)	Additions	Deletions	Balance, June 30, 1998
Land and improvements	$ 756,857	$	$	$ 5,000	$ 751,857
Buildings and improvements	37,955,777	(7,472,750)	1,286,542	107,124	31,662,445
Equipment	57,675,445	7,472,750	2,084,968	2,548,617 (A)	64,684,546
Surplus equipment	1,171,044	(1,171,044)			- 0 -
Assets held for sale	766,384				766,384
	$98,325,507	$(1,171,044)	$3,371,510	$2,660,741	$97,865,232

(A) Includes $1,775,969 in deletions due to changes in capitalization policy as discussed in Note 1. The balance of equipment was reduced for the cost of such assets on hand at June 30, 1997.

(B) The prior period adjustment of $7,472,750 is to properly classify the general fixed assets between buildings and improvements and equipment. The $1,171,044 is to remove items identified as surplus and no longer in service as of June 30, 1997. See Note 19.

The Commission is holding out for sale its Millwood location for the appraised value of $700,000. The Commission received a new appraisal on June 18, 1997. Proceeds from the sale will be used to help retire a $1,200,000 installment note executed in July, 1996. The cost of the Millwood location of $766,384 was reclassified from the buildings and improvement category to the assets held for sale category.

NOTE 6. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of Commission salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. Personal services and employer contributions applicable to funding sources other than State appropriations are accrued as expenditures at year end but are not included in the receivable from the General Fund of the State.

NOTE 7. LEASES:

The capital lease payable as of June 30, 1998 consists of a capital lease obligation due to a commercial lender pursuant to Section 59-7-50, Code of Laws of 1976, as amended for the purchase of an AT&T satellite. The obligation as executed on December 30, 1993 requires annual installments of $1,311,022 on July 15th of each year, with a final maturity on July 15, 2001. The obligation bears an effective annual interest rate of 4.25% per annum and is collateralized by a satellite costing $10,400,000.

The Commission also had a capital lease obligation due to ETV Endowment, Inc. (a related party) pursuant to Section 59-7-50, Code of Laws of South Carolina, 1976 as Amended for the purchase of production facilities. The obligation was executed on November 15, 1994, requires annual principal installments ranging from $450,000 to $720,000 due on August 15 and semi-annual interest installments ranging from $212,494 to $23,410 due on February 15 and August 15 of each year until a final maturity on August 15, 2005. The obligation bore an annual interest rate ranging from 6.0% to 7.5% and was collateralized by production facilities costing $9,450,000.

NOTE 7. LEASES: (CONTINUED)

ETV Endowment, Inc. financed the production facility by issuing Certificates of Participation totaling $6,450,000. The payments required under the capital lease mirrored payments required under the Certificates of Participation, except that the capital lease payments had to be paid to the Trustee of the Certificates of Participation by the fifteenth of the month preceding the Certificate of Participation payment dates of September 1 and March 1, and were pledged as collateral for the Certificates. During 1998 the Commission received $5,500,000 of State capital improvement bond proceeds and paid off this capital lease on January 9, 1998. The total amount paid was $5,452,722 comprised of the principal balance outstanding of $5,025,000; interest of $106,921; and additional funds of $320,801 necessary to provide for adequate escrow to meet future principal and interest payments. This prepayment is not considered an advance refunding because the ETV Endowment, Inc. had borrowed funds under certificates of participation to provide the capital lease funds to the Commission and the liability is a liability of the ETV Endowment, Inc. This $5,452,722 expenditure is reported in internal administration expenditures in the general fund.

As of June 30, 1998, the present value of the future minimum capital lease obligations and minimum annual lease payments for the capital lease follows:

1999	$1,311,022
2000	1,311,022
2001	1,311,022
2002	1,311,022
	5,244,088
Less: Interest costs	513,345
Present value of net minimum payments	$4,730,743

For capital lease expenditures for fiscal year 1998, debt service was funded through State General Fund appropriations and capital improvement bond proceeds. Total interest expenditures incurred by the Commission for capital leases for the year ended June 30, 1998 was $520,019.

The satellite was launched in December, 1993 and is guaranteed by AT&T against failure for a period of 12 years. In the event such failure occurs, AT&T will replace the satellite. There is no commitment on the part of the Commission to repair or maintain the satellite.

Operating Leases

The Commission conducts part of its operations from leased facilities which include towers and office space. These leases expire beginning with fiscal year 1999 and continue through fiscal year 2007. The Commission has the option to renew the tower leases upon the expiration of the lease term under conditions agreeable to both parties which primarily is an increase in the lease payment based on the CPI index. All leases with terms of more than twelve months are cancelable without penalty to the Commission should the General Assembly not provide funding for these leases. The Commission also leases equipment on a month to month basis. Rental expenditures under all operating leases totaled approximately $261,000 for the year ended June 30, 1998.

NOTE 7. LEASES: (CONTINUED)

At June 30, 1998, the Commission's obligation under noncancelable operating leases having remaining terms in excess of one year are as follows:

Fiscal year ending June 30,	Amount
1999	$ 275,633
2000	277,461
2001	255,407
2002	198,939
2003	181,507
Thereafter	468,757
Total	$1,657,704

NOTE 8. NOTES PAYABLE:

Notes payable at June 30, 1998 are comprised of the following:

Installment note payable #21 due to the State Treasurer. Due in annual installments of $1,032,888 on July 1st of each year, with a final maturity on July 1, 2003. The note bears interest at the rate of 8% per annum and is collateralized by equipment and facilities costing $9,004,445.	$4,774,918
Installment note payable #75 due to the State Treasurer. The agreement provides that the maximum ceiling will not exceed the sum of $2,600,000. Payments are due in annual installments of $347,988 on July 1st of each year, with a final maturity on July 1, 2006. The note bears interest at the rate of 8% per annum and is collateralized by equipment costing $2,600,000.	2,173,840
Installment note payable #106 due to the State Treasurer. The note is due in semi-annual installments of $118,316 on January 2nd and July 2nd of each year, with a final maturity on July 2, 2003. The note bears interest at the rate of 7.5% per annum and is collateralized by equipment costing $1,200,000.	1,050,619
Total notes outstanding at June 30, 1998	$7,999,377

As June 30, 1998, annual principal and interest obligations to maturity are as follows:

Fiscal Year Ending	Principal	Interest	Total
1999	$ 985,770	$ 631,737	$ 1,617,507
2000	1,064,053	553,454	1,617,507
2001	1,148,556	468,951	1,617,507
2002	1,239,770	377,737	1,617,507
2003	1,338,232	279,275	1,617,507
Thereafter	2,222,996	320,158	2,543,154
	$7,999,377	$2,631,312	$10,630,689

NOTE 8. NOTES PAYABLE: (CONTINUED)

Debt service for the notes payable is funded through the State General Fund appropriations. Total interest expenditures incurred by the Commission for notes payable for the year ended June 30, 1998 was $704,261.

NOTE 9. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 1998 was:

	Balance, July 1, 1997, as restated	Additions	Retirements	Balance, June 30, 1998
Notes payable – State Treasurer	$ 8,912,623	$	$ 913,246	$ 7,999,377
Obligations under capital leases	11,320,347		6,589,604	4,730,743
Accrued compensated absences	1,675,900	95,368		1,771,268
	$21,908,870	$95,368	$7,502,850	$14,501,388

The change in accrued compensated absences is reported at net since the gross additions/retirements amounts are not available. The July 1, 1997 balance of $1,432,393 for accrued compensated absences was restated to increase the balance by $243,507 for prior period fringe benefits payable attributable to the compensated absences previously recorded. See Note 19.

NOTE 10. STATE CAPITAL IMPROVEMENT BOND PROCEEDS RECEIVABLE:

In prior years, the State authorized funds for improvements and expansion of facilities and for debt service using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. The Commission records the proceeds as revenue in the capital projects fund when the monies must be spent for the acquisition of capital assets. The Commission is not obligated to repay state capital improvement bonds. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations are reported in the balance sheet as "State capital improvement bond proceeds receivable". A summary of the balances receivable from these authorizations as of June 30, 1998 follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
518 of 1980	$ 2,621,646	$ 2,489,892	$ 63,578	$68,176
201 of 1985	1,696,600	1,682,285	11,119	3,196
638 of 1988	13,935,000	13,933,108	1,892	- 0 -
111 of 1997	5,500,000	- 0 -	5,500,000	- 0 -
	$23,753,246	$18,105,285	$5,576,589	$71,372

In accordance with the intent of the General Assembly for the $5,500,000 authorized for the Commission under Act 111 in fiscal year 1997, the Commission used the $5,500,000 to retire early its capital lease liability secured by production facilities with the ETV Endowment, Inc. as disclosed in Note 7.

NOTE 11. DUE FROM CAPITAL RESERVE FUND:

In fiscal year 1990, the Commission received a Capital Reserve appropriation of $4,000,000 for construction and new equipment for the new facility. In fiscal year 1997, the Commission received a transfer of $3,500,000 of Capital Reserve Funds from the State Budget and Control Board (B&CB) for Instructional Television Fixed Service Expansion. These funds were part of the Capital Reserve Fund appropriations for public education technology provided under Act 474 of 1996. The unspent portion at June 30, 1998 from each of the two appropriations described above of $8,886 and $252,313, is restricted to expenditure for the purpose for which the funds were originally appropriated and the total balance is reported as an asset in the Capital Projects Fund. The Commission can request these funds as capital expenditures are made. As provided by Proviso 73.1 of the 1999 Appropriations Act, the Commission carried forward the unexpended funds to fiscal year 1998 for expenditure.

A summary of the activity of these funds as of June 30, 1998 follows:

Total Appropriation	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance of Appropriation to Be Drawn
$4,000,000	$3,991,174	$	$ 8,826
3,500,000	1,066,340	2,181,347	252,313
$7,500,000	$5,057,514	$2,181,347	$261,139

NOTE 12. RELATED PARTY:

A major portion of the funding of the Commission is provided by the ETV Endowment of South Carolina, Inc. (the Endowment), a separately chartered eleemosynary corporation governed by an independent board of trustees over whom the Commission exercises no control. The Endowment provides support services for the Commission through the purchasing and underwriting of various programming. During the year ended June 30, 1998, the Endowment disbursed $8,889,591 on behalf of the Commission for programs, development, advertising and other costs. The disbursements have been recorded as revenue under contributed support and expenditures under Internal Administration and Cultural and Performing Arts General Support and Services in the General Fund.

The Commission received $369,099 from the Endowment which is reported as charges for services revenue. In addition, they were reimbursed $164,386 for public affairs expenditures and $1,054 for community education expenditures which were reported as reductions of the expenditures.

NOTE 12. RELATED PARTY: (CONTINUED)

Summarized financial information for the Endowment as of and for the year ended June 30, 1998 is as follows:

Current assets	$ 8,760,711
Other assets	816,097
Total assets	$ 9,576,808
Current liabilities	$ 573,991
Total net assets	9,002,817
Total liabilities and net assets	$ 9,576,808
Revenues	$11,468,308
Expenses	9,876,855
Revenues over expenses	$ 1,591,453

NOTE 13. TRANSACTIONS WITH OTHER STATE AGENCIES:

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

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; grant services from the Governor's Office; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping review and approval of certain budget amendments and other centralized functions.

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and unemployment insurance, respectively. The fiscal year expenditures applicable to these transactions are not readily available.

NOTE 13. TRANSACTIONS WITH OTHER STATE AGENCIES: (CONTINUED)

During the fiscal year, various other State agencies of South Carolina provided services at no charge to the Commission in connection with joint projects. The reported related expenditures are reported under General Support and Services under the classifications of public education, higher education and agency services. The value of contributed services which are reflected in the accompanying combined financial statements are summarized as follows:

Name of Agency	
Department of Public Safety	$ 45,512
Department of Education	805,306
Employment Security Commission	12,333
University of South Carolina	865,357
Clemson University	1,002,421
Medical University of South Carolina	308,614
	$3,039,543

The amounts are shown as revenue under contributed support.

The Commission leases a certain portion of its parking facilities to the USC Athletic Department. The term of the lease is from March 1, 1995 to February 28, 2004. The Commission receives income from annual lease payments of approximately $12,000 reported as rental fees.

The Commission provided no services free of charge to other State agencies during the fiscal year. Services provided for a fee include programming, production, and broadcasting which is reported as program sales revenue are as follows:

Name of Agency	
Department of Public Safety	$134,980
Medical University of South Carolina	224,767
University of South Carolina	134,420
College of Charleston	63,888
Department of Health and Environmental Control	27,107
Commission for the Blind	12,524
Department of Mental Health	9,039
State Department of Education	23,378
Department of Natural Resources	6,925
Governor's Office	58,798
Winthrop University	12,699
SC State University	9,778
Employment Security Commission	5,948
Commission on Prosecution Coordination	19,285
Department of Labor, Licensing and Regulation	6,078
Other State agencies less than $5,000	38,525
	$788,139

NOTE 13. TRANSACTIONS WITH OTHER STATE AGENCIES: (CONTINUED)

During the year, the Commission purchased services from various State agencies. The expenditures are reported under under the classification of Internal Administration as follows:

Name of Agency	
Department of Transportation	$ 23,606
Department of Revenue and Taxation	64,977
University of South Carolina	22,138
Other state agencies under $5,000	15,227
Total	$125,948

NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS:

All employees of the Commission 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 of the State Budget and Control Board, a public employee retirement system. Generally all state employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

The Retirement Division 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.

Under SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service. The benefit formula for full benefits effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of creditable service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Commission’s actual contributions to the SCRS for the years ended June 30, 1998, 1997 and 1996, were approximately $778,000, $772,000 and $792,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately $15,400 in the current fiscal year at the rate of .15 percent of compensation.

NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

The amounts paid by the Commission for pension and group-life benefits are reported as employer contributions expenses.

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, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Commission's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Commission's liability under the pension plan(s) is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Commission recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 15. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the Annual Appropriations 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 employees and certain permanent part-time employees of the Commission are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits.

Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other applicable revenue sources of JEDA for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. The number of State retirees that meet these eligibility requirements is not available.

The Commission recorded employer contribution expenditures applicable to these benefits in the amount of approximately $698,000 for active employees for the year ended June 30, 1998. As discussed in Note 14, the Commission paid approximately $197,000 applicable to the 1.916% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Commission has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

NOTE 15. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

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 System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTE 16. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to state employees and employees of political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

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

NOTE 17. CONTINGENCIES:

The Commission is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including royalty disputes. The outcome of any litigation has an element of uncertainty. Management feels that the risk of material loss is unlikely. Accordingly, the Commission has not accrued claims loss expenditures and contingent liabilities.

NOTE 18. RISK MANAGEMENT:

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

NOTE 18. RISK MANAGEMENT: (CONTINUED)

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

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

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

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability. The IRF's rates are determined actuarially.

The Commission obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The limit is $25,000 per incident. The Commission self-insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 1998.

The Commission obtains broadcaster liability insurance through a commercial carrier covering media liability. The policy has a limit of $1,000,000 with a $5,000 deductible.

The Commission has recorded insurance premium expenses in the applicable program expenditure category. These expenses do not include estimated claim losses and estimable premium adjustments.

The Commission has not reported an estimated claims loss expenditure, and the related liability at June 30, 1998, based on the requirements of GASB Statement No. 10 <u>Accounting and Financial Reporting for Risk Financing and Related Insurance Issues</u>, which states that a liability for claims must be reported if information prior to issuance of the financial statements indicates that it is probable and estimable for accrual that an asset has been impaired or liability has been incurred on or before June 30, 1998 and the amount of the loss is reasonably estimable have not been satisfied.

NOTE 18. RISK MANAGEMENT: (CONTINUED)

In the fiscal year ended June 30, 1998, the Commission was unable to obtain business interruption insurance at a cost it considered economically justifiable. In addition, the Commission's management believes for risk of loss the occurrence of which it considers a remote likelihood, it is more economical to manage such risks internally. The Commission does not derive any revenue from advertising; therefore, no loss of revenue would occur if transmission capabilities were impaired.

The Commission is unable to estimate lost revenues, the costs of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. During the fiscal year ended June 30, 1998, the Commission did not experience any losses as a result of business interruption.

In management's opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

NOTE 19. ACCOUNTING CHANGES:

Effective July 1, 1997, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires that the equity position of each fund that sponsors the pool to be reported as assets in those funds. The Commission has restated its beginning fund balance of its General Fund as of July 1, 1997 for changes resulting from adoption of Statement No. 31.

As a result of this accounting change, interest/investment income reported includes interest, realized gains (losses) and unrealized gains (losses). If the adoption of Statement 31 were retroactive to June 30, 1996, the interest/investment income for the General Fund would have increased $5,654 for the year ended June 30, 1997.

The prior year's statement of revenues, expenditures and changes in fund balances reported interest income of $78,755 in contributed support and rental income of $425,766 in program sales in the General Fund. These items have been correctly classified in the current year's statement. The prior year’s statement of revenues, expenditures and changes in fund balances also misclassified $6,087,637 of contributed support from the ETV Endowment of South Carolina, Inc. The $6,087,637 should have been reported as cultural and performing arts general support and services expenditures but it was reported as follows in the General Fund:

Public Education: Early Childhood	$ 885,000
Higher Education General Support and Services	200,000
Agency Services General Support and Services	1,002,637
Community Education General Support and Services	2,500,000
Public Affairs General Support and Services	1,500,000
Totals	$6,087,637

NOTE 19. ACCOUNTING CHANGES: (CONTINUED)

Also, the expenditures attributable to contributed services reported in the General Fund from Clemson University and The Medical University of South Carolina should have all been reported as higher education general support and services. $512,070 was incorrectly included in community education general support and services and $200,000 was reported in cultural and performing arts general support and services.

As previously reported, the June 30, 1997 balance of net accounts receivable in the General Fund was $459,734. Revenues were overstated by $175,560 as of June 30, 1997 because the Commission recorded revenues for amounts which were not available to finance 1997 expenditures. Deferred revenue was understated by the $175,560. Accounts receivable and revenues were understated by $123,168 because accounts receivable were recorded as a reduction in revenue in error.

The liability for accrued salaries and related benefits which was previously reported at $1,073,619 in the General Fund as of June 30, 1997 was overstated by $68,712 because the Commission used an incorrect rate to calculate the fringe benefit portion of the accrual. This resulted in the Due from the General Fund of the State which was previously reported as $906,794 to be overstated by $58,035 for the state funded portion of the accrual and fund balance which was previously reported as $12,140,140 to be understated by $10,677 for the non-state funded portion of the accrual.

The restatement to the fund balance of the General Fund is as follows:

Adoption of GASB 31	$ 4,925
Understatement of deferred revenue	(175,560)
Understatement of accounts receivable	123,168
Overstatement of accrued salaries and related benefits	10,677
Net decrease to fund balance	$ (36,790)

The June 30, 1997 liability of $1,432,893 for accrued compensated absences and related benefits in the General Long-Term Debt group of accounts was understated because the liability did not include $243,507 in fringe benefits attributable to the salaries. See Note 9.

Also, see Notes and 1 and 5 regarding change in capitalization policy for general fixed assets.

The June 30, 1997 buildings and improvements balance of $37,955,777 was overstated by $7,472,750 and the equipment balance of $57,675,445 was understated by $7,472,750 because the general ledger control accounts did not agree to the detailed listings by category.

The general fixed asset account group included $1,171,044 of surplus equipment as of June 30, 1997 which should have been shown as a retirement in the year ended June 30, 1997 since it was no longer being used by the Commission.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the South Carolina Educational Television Commission (the Commission) as of and for the year ended June 30, 1998, and have issued our report thereon dated November 24, 1998, which was qualified due to the omission of the year 2000 disclosures that are required by Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be a reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described on page 29.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on page 29 are material weaknesses.

We also noted certain other matters involving the internal control as shown in the management letter comments on pages 29 and 30.

This report is intended for the information of the Board of Commissioners and management. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State Auditor's Office, is a matter of public record.

Columbia, South Carolina
November 24, 1998

MANAGEMENT LETTER COMMENTS

A. REPORTABLE CONDITIONS – MATERIAL WEAKNESSES

NO SUPPORT FOR ALLOCATION OF CONTRIBUTED SERVICES

In prior years, the Commission had been allocating expenditures related to contributed services to various expenditure categories. When questioned as to the allocation methodology, management of the Commission could not provide any documentation to support the allocation to certain categories. Based on further review, management determined that all of the contributed services from the ETV Endowment of South Carolina, Inc. should have been classified as Cultural and Performing Arts general support and services. Last year approximately 35% was classified under this category. In addition, contributed services by the Medical University of South Carolina and Clemson University totaling approximately $712,000 were allocated without support.

Generally accepted accounting principles require that expenditures be classified according to their purpose. Failure to document the methodology used in the allocation could lead to the misclassification of expenditures. Adjustments were made to properly allocate the current year's expenditures.

We recommend that the Commission allocate the contributed service expenditures according to their purpose.

FIXED ASSETS DO NOT AGREE TO SUBSIDIARY BY CATEGORY

The general ledger control account and closing package submitted to the Comptroller General breaking out fixed assets between buildings and equipment does not agree with the supporting detail by category even though it agrees in total. Equipment per the general ledger and closing package is approximately $7,400,000 less than the supporting detail while the building classification is approximately $7,400,000 more than the supporting detail. Good controls require the general ledger to agree to the detail records by classification. A prior period adjustment was made to correct this discrepancy.

We recommend that a detailed review be performed of all items shown in the detail records to ensure they are properly classified and that the general ledger and closing packages be adjusted to agree with the supporting detail.

B. OTHER WEAKNESSES

IMPROVEMENTS NEEDED IN BILLING PROCESS

The Commission does not have a formal billing process. We noted that an invoice for equipment totaling $201,500 was billed two years late. There is no standard form used to initiate a bill and no requirements that the request for billing be signed or approved.

We recommend that the Commission implement a formal billing procedure to ensure that all amounts due are billed in a timely manner.

JOURNAL ENTRIES NOT SIGNED OR AUTHORIZED

Our test of ten journal entries disclosed that four were not signed by the preparer, five were not signed by an individual documenting that they had been authorized, and one was not signed by the preparer or signed by an individual documenting authorization.

Good internal controls require the signature of the preparer and evidence of authorization.

We recommend that the policy requiring both signatures be enforced.

ERRORS IN RECEIVABLES CLOSING PACKAGE

The Commission included $62,859 collected in the State's fiscal month 13 in the accounts receivable collected in July on their closing package submitted to the Comptroller General. The $62,859 was not part of accounts receivable at June 30 and should not have been included in the July collections. This also caused the accounts receivable to be collected after July to be understated by $62,859 since this amount was backed into by taking the total receivables and subtracting the amount reported as collected in July.

In addition, the Commission has been reporting the allowance for uncollectible accounts receivable based on 2% of the amount not collected in July. The Commission has no support for this percentage and based on discussions with management, it appears that the allowance amount is substantially understated.

We recommend that additional care be taken in the preparation of the closing package. In addition, the Commission should perform a detailed review of the accounts receivable to document the amount that it reports as uncollectible.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998

During our current audit, we reviewed the status of corrective action taken on the findings reported in the prior auditor's report on the financial statements of the Commission dated November 21, 1997, resulting from the audit of the financial statements for the year ended June 30, 1997. We found that adequate corrective action has been taken on the two findings cited.

December 2, 1998

Rogers & Laban, CPA's
Attn: Barry Laban
P.O. Box 124
Columbia, South Carolina 29202

Dear Barry,

The following is our reply to the Management Letter commits submitted in your preliminary draft of our financial statements.

1. ALLOCATION OF CONTRIBUTED SERVICES -

In prior years, agency management has used estimates to allocate contributed services expenditures. Until this year, that methodology has been accepted by the auditors. When that methodology was questioned by the auditors this year, we provided allocations based on the purpose of the contributed services expenditures.

In the case of ETV Endowment, the management letter comment stated that "Management determined that all of the contributed services of the ETV Endowment of South Carolina, Inc. Should have been classified as Cultural and Performing Arts". In fact, management provided information to the auditors that $540,708 should be allocated to Internal Administration and $8,348,883 should be allocated to Cultural and Performing Arts. This information was based on the purpose of the expenditures made by the Endowment.

The management letter further stated that "contributed services by the Medical University of South Carolina and Clemson University totaling $712,000 were allocated without support". Documentation in the form of letters from both institutions was provided to the auditors and is attached to this response. This type of documentation has been acceptable in the past.

2. FIXED ASSETS DO NOT AGREE TO SUBSIDIARY BY CATEGORY –

This discrepancy occurred during construction of the TCC Center when items such as cable trays, air handling units, etc were classified as equipment by the Inventory Control Section but picked up as buildings on the general ledger. In FY '97 we put a system in place to end this problem and we have now gone back to prior year expenditures and corrected the allocation. The total dollar value of fixed assets was never in question.

3. IMPROVEMENTS NEEDED IN BILLING PROCESS –
The agency acknowledges that improvements need to be made in the billing process. To accomplish that objective, a software program called ScheduALL has been purchased. ScheduALL will track facility and equipment usage, estimate project budgets, track project costs and compile billing information. ScheduALL will be fully implemented during the next fiscal year. The agency has spent the past year purchasing hardware needed to run ScheduALL, defining resources, determining the actual costs for personnel, facilities and equipment, and training users.

ScheduALL will provided a systematic method to ensure that all services are billed in a timely manner.

4. JOURNAL ENTRIES NOT SIGNED OR AUTHORIZED –
Ms. Brenda Jones heads up the Accounting section of the Finance Department. Additionally, she is the Assistant Department Head and takes over the Department Directors duties in his absence. She has full authority to initiate, prepare and authorize journal entries within the Agency. Additionally, the journal entries completed by Ms Jones are to record activity (employer contributions, capital bond draws, etc) completed by the Comptroller General. There has never been a problem with journal entries in this office and we balance to the CG reports at the end of each month. In the future the Department Head will review and approve Journal Entries as time permits.

5. ERROR IN RECEIVABLE CLOSING PACKAGE –
An amount was inadvertently not subtracted from Accounts Receivable for the FY '98 Closing Package. In the future we will take extra care in preparing Closing Packages. Also Accounts Receivable will be more closely monitored to document the amounts actually uncollectible.

If you have any questions concerning the above please call me at 737-3223. Additionally, I have reviewed the preliminary draft and it appears to be ok.

Sincerely,

Henry C. Christopher, Jr
Director of Financial Services