

State of South Carolina



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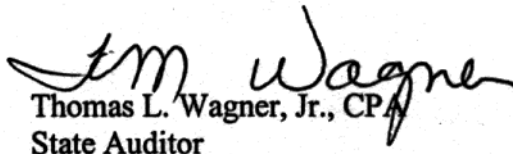
December 16, 1999

The Honorable James H. Hodges, 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, 1999, 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

**SOUTH CAROLINA
EDUCATIONAL TELEVISION COMMISSION
COLUMBIA, SOUTH CAROLINA**

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 1999

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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 the South Carolina Educational Television Commission ("the Commission") as of and for the year ended June 30, 1999, 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 and account groups 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.

In our opinion, 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, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 5, management discovered that an error was made in the application of an accounting principle resulting in the under reporting in equipment as of June 30, 1998.

The year 2000 issue required supplementary information on page 24 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue; its effects; the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established; the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter; and, because insufficient audit evidence exists to support the disclosures. In addition, we do not provide assurance that the Department is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 1999 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
December 3, 1999

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types			Account Groups	
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$ 5,477,977	\$ 469,712	\$ 542,148	\$	\$
Accounts receivable, net	326,609				
Accrued interest receivable	8,897				
Due from General Fund of the State	932,244				
Due from other State agencies	244,252				
Costs of programs not telecast	190,156				
State capital improvement bond proceeds receivable			33,934		
Capital reserve fund proceeds receivable			3,543,631		
Property and equipment				101,097,274	
Amount to be provided for retirement of general long-term debt					12,875,214
TOTAL ASSETS AND OTHER DEBITS	\$ 7,180,135	\$ 469,712	\$ 4,119,713	\$ 101,097,274	\$ 12,875,214
LIABILITIES, FUND EQUITY AND OTHER CREDITS					
LIABILITIES:					
Accounts payable	\$ 405,708	\$ 26,828	\$ 21,610	\$	
Accrued salaries and related benefits	1,060,656	21,550	3,263		
Deferred revenue	141,057	421,334			
Obligations under capital lease					3,620,873
Obligations under note payable					7,400,000
Accrued compensated absences and related benefits					1,854,341
TOTAL LIABILITIES	1,607,421	469,712	24,873		12,875,214
FUND EQUITY AND OTHER CREDITS:					
Investment in general fixed assets					
Fund balances:				101,097,274	
Reserved for costs of programs not yet telecast	190,156				
Reserved for capital projects and equipment			4,094,840		
Unreserved Fund Balance:					
Undesignated fund balance	5,382,558				
TOTAL FUND EQUITY AND OTHER CREDITS	5,572,714		4,094,840	101,097,274	
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 7,180,135	\$ 469,712	\$ 4,119,713	\$ 101,097,274	\$ 12,875,214

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General	Special Revenue	Capital Projects
REVENUES:			
State appropriation	\$ 19,616,982	\$	\$
Contributed support	10,618,158		
Contributions	61,018		
Program sales	2,671,749		
Corporation for Public Broadcasting, Inc. grant	3,870,788		
Education Improvement Act		1,216,425	2,522,067
Private grants and contracts	5,029	81,199	
Federal grants			237,110
Charges for services	157,622		
Rental fees	421,327		
Royalties	196,709		
Interest/investment income	26,635		
Capital reserve fund appropriations			3,500,000
Miscellaneous income	15,264		205,416
TOTAL REVENUES	37,661,281	1,297,624	6,464,593
EXPENDITURES:			
Internal administration	16,079,744	803,833	
Public education:			
Early childhood	604,157		
School services	740,845		
General support and services	8,650,686	31,041	
Higher education general support and services	4,212,825		
Agency services:			
Local government and business services	182,848		
General support and services	2,274,253		
Community education general support and services	3,968,260	462,750	
Public affairs general support and services	1,414,634		
Cultural and performing arts general support and services	6,748,429		
Total quality management	545		
Equipment and materials purchased for resale	228,715		
Equipment purchased and permanent improvements			2,770,003
Refunds to grantors	443,098		
TOTAL EXPENDITURES	45,549,039	1,297,624	2,770,003
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,887,758)	-	3,694,590
OTHER FINANCING SOURCES			
Proceeds of note payable	7,400,000		
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(487,758)	- 0 -	3,694,590
FUND BALANCES, BEGINNING	6,303,739	- 0 -	400,250
INCREASE (DECREASE) IN RESERVE FOR COST OF PROGRAMS NOT YET TELECAST	(243,267)		
FUND BALANCES, ENDING	\$ 5,572,714	\$ - 0 -	\$ 4,094,840

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - TOTAL BUDGETED FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

	Budgetary General Fund			Other Budgeted Funds			Total Budgeted Funds		
	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal services	\$ 9,549,620	\$ 9,447,562	\$ 102,058	\$ 1,942,595	\$ 1,573,606	\$ 368,989	\$ 11,492,215	\$ 11,021,168	\$ 471,047
Employer contributions	2,332,656	2,309,227	23,429	489,424	368,598	120,826	2,822,080	2,677,825	144,255
Other operating expenses	6,305,419	6,304,867	552	10,458,458	6,685,417	3,773,041	16,763,877	12,990,284	3,773,593
Debt service - principal - IPP notes	985,769	985,769	0	1,039,948	1,039,948	0	2,025,717	2,025,717	0
Debt service - interest - IPP notes	631,738	631,738	0				631,738	631,738	0
Permanent improvements				10,420,501	9,130,338	1,290,163	10,420,501	9,130,338	1,290,163
Total quality management	545	545	0				545	545	0
Totals	<u>\$ 19,805,747</u>	<u>\$ 19,679,708</u>	<u>\$ 126,039</u>	<u>\$ 24,350,926</u>	<u>\$ 18,797,907</u>	<u>\$ 5,553,019</u>	<u>\$ 44,156,673</u>	<u>\$ 38,477,615</u>	<u>\$ 5,679,058</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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

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) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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

Reporting Entity (Continued)

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 and account groups of the State of South Carolina that is attributable to the transactions of the Commission.

Basis of Presentation and Description of Funds

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

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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

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 federal grants and private sources restricted to capital asset transactions reported in this fund type. The fund balance account related to these capital projects is titled reserved for capital projects and equipment.

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 applicable governmental fund providing the expendable resources upon acquisition and simultaneously capitalized at cost in the general fixed asset account group. Equipment additions that are obtained through installment agreements including notes payable and capital leases 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. Construction expenditures are recorded at cost when incurred and simultaneously capitalized as construction in progress in the general fixed assets account group. When an improvement is placed in service, it is then reclassified from construction in progress to the appropriate improvement classification, as applicable. Generally, capital improvements are funded through annual appropriations by the General Assembly, Capital Reserve Fund appropriations or State Capital Improvement Bond proceeds.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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

The current policy of the Commission is to capitalize items costing \$500 or more, with a minimum expected useful life of three years. 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 fixed assets, 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. Currently, these liabilities include compensated absences and the principal portion owed on capital lease obligations and notes payable.

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.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

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

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 72.14 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.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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

Cash and Cash Equivalents (Continued)

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

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

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 because the asset does not represent resources available for expenditures.

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 and compensatory holiday 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, 1999. 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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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

Fund Balance

The equity section of the balance sheet includes two major fund balance elements: reserved and unreserved, (designated or 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 management's 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 includes payments on behalf of the Commission, primarily for 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 by the Commission at a value equal to the actual cost to the contributing entity.

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, 1999.

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 required by the grantor or donor have been 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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

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. The refund to grantors is also unbudgeted. 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	\$ 45,549,039	\$ 1,297,624	\$ 2,770,003	\$	\$
Fund reclassifications:					
State appropriation	(19,743,761)			19,743,761	
Grants	(3,130,761)	(1,297,624)	(2,439,321)		6,867,706
Other	(11,613,261)		(330,682)		11,943,943
Unbudgeted	(11,061,256)				
Net accruals:					
Personal services and employer contributions				(64,053)	(13,742)
Expenditures on legal basis	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 19,679,708</u>	<u>\$ 18,797,907</u>

NOTE 3. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriations Act for the period ended June 30, 1999 as originally enacted by the General Assembly to State appropriation revenue as reported in the general fund.

Original appropriation	\$19,254,326
Allocations by State Budget & Control Board:	
Employee base pay increase (Proviso 63C.12)	<u>298,603</u>
Adjusted Appropriation, Budgetary Basis	19,552,929
Accrual adjustments:	
Funding for personal services and employer contributions	<u>64,053</u>
Accrual basis State appropriation revenue	<u>\$19,616,982</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 3. STATE APPROPRIATION: (CONTINUED)

The total amount of 1999 State appropriated funds authorized to be carried forward to fiscal year 2000 was \$126,039. Proviso 72.48 of the 1999-2000 Appropriations Act under which the \$126,039 was carried forward, allows for a carryforward of unspent fiscal year 1998-1999 appropriation up to a maximum 10% of the Commission's original appropriation less any reduction to the 1998-1999 fiscal year excluding amounts carried forward under separate carryforward authority.

The amount of 1998 State appropriated authorized funds brought forward to fiscal year 1999 was \$252,818 of which \$252,273 was brought forward under Proviso 72.48 of the 1999 Appropriation Act for fiscal year 1998-1999 expenditures. The proviso allowed for a carry forward of up to a maximum of 10% of its original appropriation less any reductions. \$545 was brought forward under Proviso 63A.2 of the 1998-1999 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:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$6,489,837	Petty Cash	\$ 200
		Deposits Held by State Treasurer	<u>6,489,637</u>
Totals	<u>\$6,489,837</u>	Totals	<u>\$6,489,837</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to 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.

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 \$6 in unrealized gains as of June 30, 1999.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

NOTE 5. CHANGES IN GENERAL FIXED ASSETS:

A summary of changes in general fixed assets for the fiscal year ended June 30, 1999 follows:

	Balances, June 30, 1998 <u>as restated</u>	<u>Additions</u>	<u>Deletions</u>	Balances, June 30, 1999
Land and improvements	\$ 751,857	\$	\$ 61,200	\$ 690,657
Buildings and improvements	31,662,445	1,760,137		33,441,352
Equipment	65,254,546 ^(A)	2,483,850	1,520,745	66,198,881
Assets held for sale	<u>766,384</u>	<u></u>	<u></u>	<u>766,384</u>
	<u>\$98,435,232</u>	<u>\$4,243,987</u>	<u>\$1,581,945</u>	<u>\$101,097,274</u>

(A) The carrying value of certain equipment was understated by \$570,000 for equipment acquired in the year ending June 30, 1996. The balances as of June 30, 1998 have been restated to correct this error.

The Commission was holding out for sale its Millwood location for the appraised value of \$700,000. The Commission received a new appraisal on June 18, 1997. At its June 29, 1999 meeting, the State Budget and Control Board authorized the Commission to sell the property and retain the proceeds. The cost of the Millwood location of \$766,384 was reclassified from the buildings and improvement category to the assets held for sale category. The assets held for sale were sold subsequent to year-end. The net proceeds received by the Commission was \$561,980.

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:

Capital Lease

The capital lease payable as of June 30, 1999 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. As of June 30, 1999, the present value of the future minimum capital lease obligations and minimum annual lease payments for the capital leases follows:

Fiscal year ending June 30,

2000	\$ 1,311,022
2001	1,311,022
2002	<u>1,311,022</u>
	3,933,066
Less: Interest costs	<u>312,193</u>
Present value of net minimum payments	<u>\$ 3,620,873</u>

For capital lease expenditures for fiscal year 1999, debt service was funded through the State appropriation. Total interest expenditures incurred by the Commission for capital leases for the year ended June 30, 1999 was \$201,151.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 7. LEASES: (CONTINUED)

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 has agreed to 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 2000 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. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property. Rental expenditures under all operating leases totaled approximately \$450,000 for the year ended June 30, 1999.

At June 30, 1999, the Commission's obligations under noncancelable operating leases having remaining terms in excess of one year are as follows:

Fiscal year ending June 30,	
2000	\$ 357,626
2001	321,717
2002	279,104
2003	204,861
2004	189,929
Thereafter	<u>323,165</u>
Total	<u>\$ 1,676,402</u>

NOTE 8. NOTES PAYABLE:

On May 25, 1999, the Commission paid \$7,013,607 of notes payable to the State Treasurer using the proceeds of a \$7,400,000 note payable from a financial institution. The remaining proceeds along with \$87,214 of the Commission's funds on hand were used to pay \$473,607 in interest due upon the payoff of the notes payable. Annual payments of \$1,263,058 including interest at 4.66% are due each May 28th with final maturity on May 28, 2006. The note is secured by equipment with an original cost of approximately \$17,500,000.

Total principal and interest payments on notes payable during the fiscal year were \$7,999,377 and \$1,105,344, respectively. These amounts include the amounts paid upon the payoff of the notes payable as described above.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

NOTE 8. NOTES PAYABLE: (CONTINUED)

Details of annual debt service, including interest, for each year are as follows:

Year ending June 30,	Principal	Interest	Total
2000	\$ 918,372	\$ 344,686	\$ 1,263,058
2001	961,149	301,909	1,263,058
2002	1,005,919	257,139	1,263,058
2003	1,052,773	210,285	1,263,058
2004	1,101,811	161,247	1,263,058
Thereafter	2,359,976	166,140	2,526,116
Total debt service obligations	<u>\$ 7,400,000</u>	<u>\$ 1,441,406</u>	<u>\$ 8,841,406</u>

NOTE 9. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 1999 was:

	Balance, July 1, 1998,	Additions	Retirements	Balance, June 30, 1999
Notes payable – State				
Treasurer	\$ 7,999,377	\$ 7,400,000	\$ 7,999,377	\$ 7,400,000
Obligations under capital leases	4,730,743		1,109,870	3,620,873
Accrued compensated absences and related benefits	<u>1,771,268</u>	<u>83,073</u>		<u>1,854,341</u>
	<u>\$14,501,388</u>	<u>\$ 7,483,073</u>	<u>\$ 9,109,247</u>	<u>\$12,875,214</u>

The change in accrued compensated absences and related benefits is reported at net since the amounts for gross additions/retirements are not available.

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, 1999 follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1999	Balance Authorized June 30, 1999
518 of 1980	\$2,621,646	\$2,553,470	\$34,242	\$33,934
201 of 1985	<u>1,696,600</u>	<u>1,693,404</u>	<u>3,196</u>	<u>0</u>
	<u>\$4,318,246</u>	<u>\$4,246,874</u>	<u>\$37,438</u>	<u>\$33,934</u>

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 its new facility. In fiscal year 1997, the Commission received an additional transfer of \$3,500,000 of Capital Reserve Funds from the State Budget and Control Board (B&CB) for Instructional Television Fixed Service (ITFS) Expansion. In fiscal year 1999, the

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

NOTE 11. DUE FROM CAPITAL RESERVE FUND: (CONTINUED)

Commission received an additional transfer of \$3,500,000 from the State Budget and Control Board for school technology. The unspent portion at June 30, 1999 from each of the appropriations described above 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 6.5 of the 2000 Appropriations Act, the Commission carried forward the unexpended funds to fiscal year 2000 for the expenditure. The Commission has no carryover authority on the \$8,826 remaining from the 1990 appropriation and plans on remitting it to the State general fund in fiscal year 2000.

A summary of the activity for these funds as of June 30, 1999 follows:

<u>Total Appropriation</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1999</u>	<u>Balance of Appropriation to Be Drawn</u>
\$ 4,000,000	\$3,991,174	\$ 0	\$ 8,826
3,500,000	3,247,687	217,508	34,805
<u>3,500,000</u>	<u>0</u>	<u>0</u>	<u>3,500,000</u>
<u>\$11,000,000</u>	<u>\$7,238,861</u>	<u>\$217,508</u>	<u>\$3,543,631</u>

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, 1999, the Endowment disbursed \$6,856,382 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, Public Affairs General Support and Services, Community Education General Support and Services and Cultural and Performing Arts General Support and Services in the General Fund. In addition, the Commission received \$836,644 from the Endowment which is reported primarily as program sales and charges for services revenue.

Summarized financial information for the Endowment as of and for the year ended June 30, 1999 is as follows:

As of June 30, 1999

Current assets	\$10,009,351
Other assets	<u>710,656</u>
Total assets	<u>\$10,720,007</u>
Current liabilities	\$ 471,350
Total net assets	<u>10,248,657</u>
Total liabilities and net assets	<u>\$10,720,007</u>
For year ended June 30, 1999	
Revenues	\$10,142,461
Expenses	<u>8,896,621</u>
Change in net assets	<u>\$ 1,245,840</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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; debt assistance services, check preparation and banking from the State Treasurer; legal services from the Attorney General; 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, grant 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.

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:

<u>Name of Agency</u>	
Department of Public Safety	\$ 50,175
Department of Education	941,575
Employment Security Commission	37,907
University of South Carolina	891,300
Clemson University	832,551
Medical University of South Carolina	<u>308,769</u>
	<u>\$3,062,277</u>

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 \$13,000 reported as rental fees.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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

The Commission provided no services free of charge to other State agencies during the fiscal year. Program sales revenues include fees charged for services provided to the following State agencies which include programming, production, and broadcasting:

Name of Agency

Department of Public Safety	\$ 251,377
Medical University of South Carolina	25,809
University of South Carolina	102,833
Department of Health and Environmental Control	58,397
Commission for the Blind	8,989
Department of Mental Health	185,688
State Department of Education	29,562
Department of Natural Resources	23,095
Governor's Office	5,332
Winthrop University	12,919
SC State University	103,000
Clemson University	6,036
Department of Juvenile Justice	21,440
Department of Commerce	12,079
Budget and Control Board	7,210
Other State agencies less than \$5,000	43,447
	<u>\$ 897,213</u>

During the year, the Commission purchased services from various State agencies. These expenditures are reported under the classification of Internal Administration primarily for taxes and royalties and were paid to the following State agencies:

Name of Agency

Department of Revenue and Taxation	\$ 80,868
University of South Carolina	33,078
Other state agencies under \$5,000	12,530
	<u>\$ 126,476</u>

NOTE 14. PENSION PLAN 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

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

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

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, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 1999, 1998 and 1997, were approximately \$814,000 \$778,000 and \$772,000, 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 \$16,000 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Commission for pension and group-life benefits are reported as expenditures in the applicable program category.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

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. Approximately 19,200 State retirees met these eligibility requirements at June 30, 1998.

The Commission recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$754,000 for active employees for the year ended June 30, 1999. As discussed in Note 14, the Commission paid approximately \$219,000 applicable to the 2.03% 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.

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 employers of its political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), administered by third parties and are not 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. 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 also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 17. 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.

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, 1999.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 17. RISK MANAGEMENT: (CONTINUED)

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, 1999, based on the requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, 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, 1999 and the amount of the loss is reasonably estimable have not been satisfied.

In the fiscal year ended June 30, 1999, 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, 1999, 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 18. COMMITMENTS:

As of June 30, 1999, the Commission had approximately \$350,000 in outstanding commitments related to capital projects.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 ISSUE (UNAUDITED)
JUNE 30, 1999

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

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

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

The Commission has internally conducted various assessments of Y2K issues. A project plan for remediation of the Commission's systems, including timelines, has been developed, costs determined and resources allocated. The Commission's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. An additional \$308,240 is funded in fiscal 2000 to replace or upgrade existing data processing equipment. The Commission's management view is that Y2K funding is appropriate for the balance of the initiative.

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

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

At June 30, 1999, all phases had been completed for the following mission critical systems:

- Audio Bridge Scheduling
- Broadcast Scheduling System and Automation
- Cost Accounting and Tracking System
- Crime to Court Subscription Database
- Inventory
- Marketing
- Scheduling

At June 30, 1999 the Commission had completed the remediation stage for the accounting system and was performing testing and had completed the assessment stage on the C-Band Remote Control System.

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

**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, 1999, and have issued our report thereon dated December 3, 1999. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Commission as detailed on page 26.

This report is intended for the information of the Commission members and management of the Commission and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
December 3, 1999

**SOUTH CAROLINA EDUCATIONAL TELEVISION
MANAGEMENT LETTER COMMENTS**

FOR THE YEAR ENDED JUNE 30, 1999

JOURNAL ENTRIES NOT SIGNED OR AUTHORIZED

Our test of ten journal entries disclosed that four were not signed by the preparer, and one was not signed by the preparer or signed by an individual documenting authorization. A similar finding was cited in the prior year's management letter.

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 CLOSING PACKAGES

Our review of the Commission's closing packages disclosed the following:

- 1) The fixed asset closing package reported a \$570,000 prior period adjustment as a reduction in current year retirements instead of as a correction to prior year balances.
- 2) The future minimum lease payments on the operating lease closing package was understated by \$66,528 because of calculation errors and the omission of a lease.
- 3) The compensated absence closing package under reported accrued leave because the Commission used a report before the end of the fiscal year to prepare the closing package.
- 4) The receivables closing package excluded approximately \$25,000 in receivables collected in July for services performed in fiscal year 1999.

Management made the appropriate adjusting entries to its financial statements to correct the above noted errors.

The Comptroller General's GAAP Closing Package Manual includes instructions on the preparation of the various closing packages.

We recommend that additional care be exercised in the preparation of the various closing packages to ensure that they are accurately prepared and reflect information as of year-end.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

STATUS OF PRIOR FINDINGS FOR THE YEAR ENDED JUNE 30, 1999

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 24, 1998, resulting from the audit of the financial statements for the year ended June 30, 1998. We found that adequate corrective action has been taken on the comments regarding the following:

(A) Reportable Conditions – Material Weaknesses

- No support for allocation of contributed services
- Fixed assets do not agree to subsidiary

(B) Other Weaknesses

- Improvements needed in billing process
- Errors in closing packages

The finding regarding journal entries not signed or authorized is repeated on page 26.

MANAGEMENT'S RESPONSE

APPENDIX A

SC ETV
1101 George Rogers Boulevard
Post Office Box 11000
Columbia, South Carolina 29211

December 15, 1999

Rogers & Laban
Certified Public Accountants
1529 Hampton Street, Suite 200
Columbia, S.C. 29201

Dear Barry:

This letter is in response to the Management Letter comments in the FY 98-99 audit of S.C. Educational Television.

Journal Entries Not Signed or Authorized

We acknowledge that four of the ten sampled journal entries were not signed or authorized. We concur with the recommendation that the policy requiring both signatures be enforced.

Errors in Closing Packages

We acknowledge that errors were made in the following GAAP Closing Packages:

1) Fixed Assets: A \$570,000 prior period adjustment was reported as an adjustment to current year retirements.

Management Response: We concur with the finding and amended the closing package.

2) Operating Leases: The closing package understated operating lease by \$66,528 because of calculation errors and the omission of a lease.

Management Response: We acknowledge that calculation errors were made and that one lease was omitted.

south carolina educational television

P.2, letter to Rogers & Laban;

3) Compensated Absences: The closing package understated accrued leave because the agency used a report dated prior to the end of the fiscal year.

Management Response: We acknowledge using a report dated June 15, 1999, which resulted in understating accrued leave by approximately \$5,000.

4) Accounts Receivable: The closing package excluded approximately \$25,000 in receivables.

Management Response: We acknowledge that approximately \$25,000 in revenue received in July should have been included in the Accounts Receivable Closing Package. We concur with the recommendation to implement procedures which will identify all accounts receivable.

If you have questions, please call me at 737-3318.

Sincerely,

David L. Crouch
Vice President for
Administrative Services