

LANDER UNIVERSITY
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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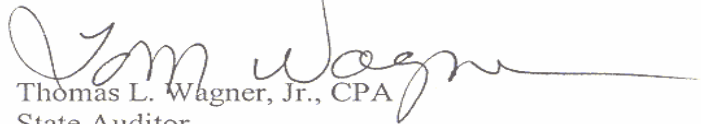
October 11, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

This report on the audit of the basic financial statements and the additional reports required by OMB Circular A-133 of Lander University for the fiscal year ended June 30, 2004, was issued by Elliott Davis, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

**LANDER UNIVERSITY
GREENWOOD, SOUTH CAROLINA**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Lander University (University), a department of the State of South Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the University adopted the provisions of the Governmental Accounting Standards Board Statement Number 39, *Determining Whether Certain Organizations are Component Units* during the year ended June 30, 2004.

Management's discussion and analysis on pages 3 - 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audit.

Elliott Davis, LLC

August 11, 2004

LANDER UNIVERSITY
Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Lander University is pleased to present its financial statements for fiscal year 2004. Condensed statements for fiscal years 2003 and 2004 will be presented in this section for comparative purposes. However, the emphasis of discussions about these statements will be on current year data. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research, and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Colleges and Universities*. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The University's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's overall finances when considered with non-financial facts such as enrollment levels and the condition of the facilities.

In addition, the financial statements contain a statement of financial position and statement of activities for The Lander Foundation, a discretely presented component unit. The Foundation's separately issued financial statements are audited by independent auditors retained by them.

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

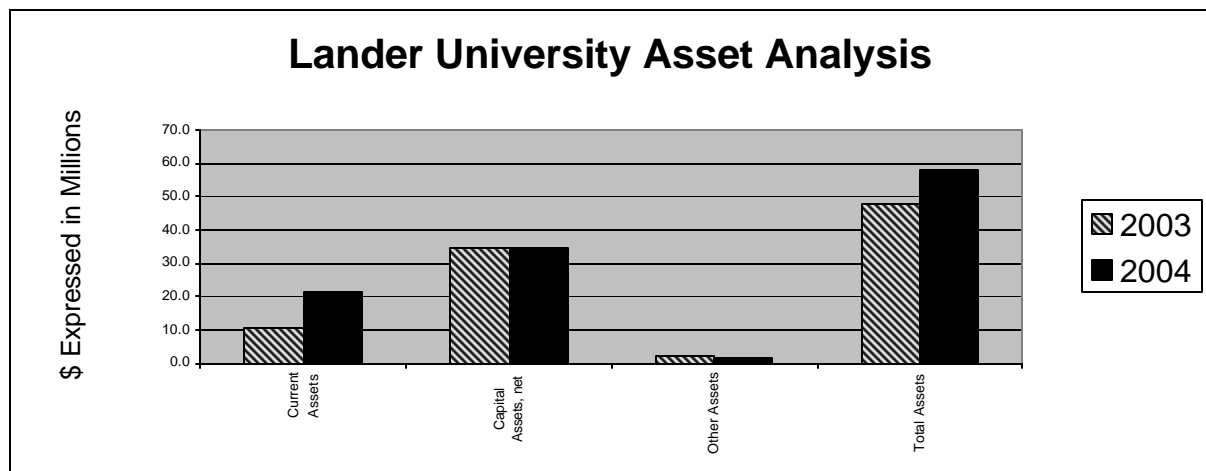
The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present a fiscal snapshot of Lander University. The Statement of Net Assets presents end-of-year data concerning assets (property owned by the University and debts owed by others to the University), liabilities (debts owed to others and funds collected from others prior to the University providing service/goods), and net assets (assets minus liabilities). It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to the University, regardless of when cash is exchanged.

The Statement of Net Assets provides data that identifies the assets available to continue the operations of the University as well as how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is expendable restricted net assets. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic programs and initiatives.

Condensed Summary of Net Assets

	2004	2003	Increase/ Decrease	Percent Change
Assets:				
Current assets	\$ 21,659,085	\$ 10,834,285	\$ 10,824,800	99.91%
Capital assets, net	35,028,043	34,822,553	205,490	0.59%
Other assets	1,573,952	2,111,992	(538,040)	-25.48%
Total Assets	58,261,080	47,768,830	10,492,250	21.96%
Liabilities:				
Current Liabilities	2,701,733	1,873,391	828,342	44.22%
Noncurrent Liabilities	13,067,409	3,512,358	9,555,051	272.04%
Total Liabilities	15,769,142	5,385,749	10,383,393	192.79%
Net Assets:				
Invested in capital assets, net of debt	23,363,043	32,987,553	(9,624,510)	-29.18%
Restricted-expendable	11,348,583	1,536,792	9,811,791	638.46%
Unrestricted	7,780,312	7,858,736	(78,424)	-1.00%
Total Net Assets	\$ 42,491,938	\$ 42,383,081	\$ 108,857	0.26%



Total assets of the University increased approximately \$10.5 million dollars over the previous year. This increase was due primarily to the issuance of institutional bonds for a new 300 bed residence hall and the associated parking requirements set to begin construction during fiscal year 2005. This new facility will replace approximately 150 beds of leased housing space at the Greenwood High Apartments and roughly 120 beds in Coleman Hall, both located off campus. Upon completion of this project, Coleman Hall will be offered for sale. The additional beds will be needed to provide adequate facilities for future growth.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year as either operating or non-operating activities. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as non-operating revenues. The utilization of long-lived

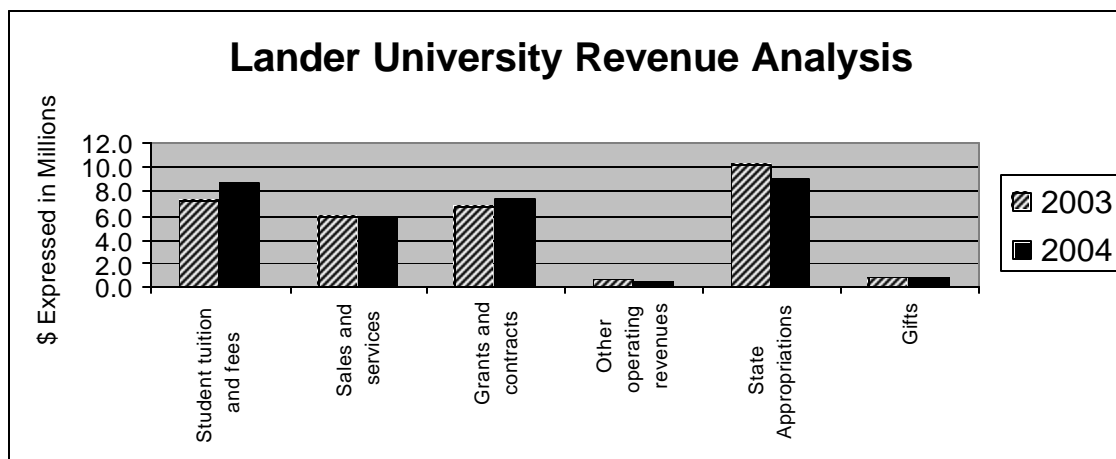
assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

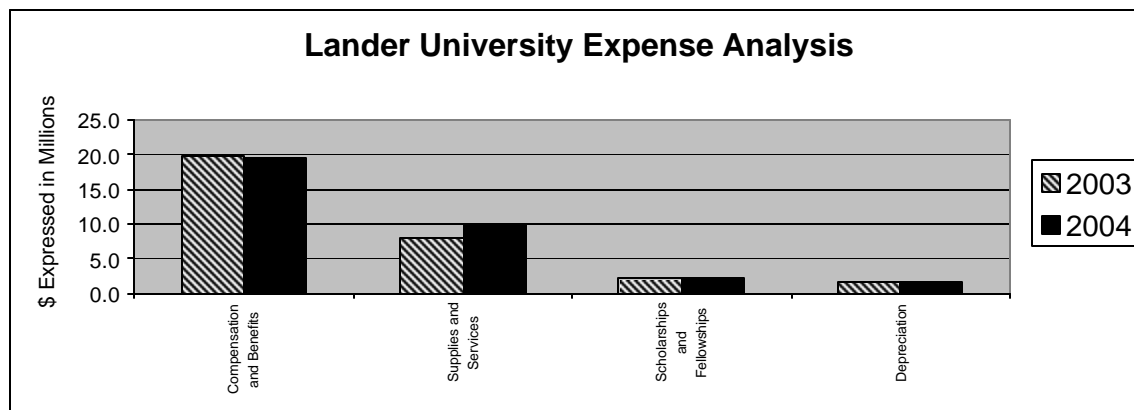
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided.

Condensed Summary of Revenues, Expenses
and Changes in Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	\$ 8,756,354	\$ 7,271,322	\$ 1,485,032	20.42%
Sales and services	5,999,783	5,967,010	32,773	0.55%
Grants and contracts	7,365,957	6,701,403	664,554	9.92%
Other operating revenues	567,327	694,266	(126,939)	-18.28%
Total operating revenues	22,689,421	20,634,001	2,055,420	9.96%
Operating Expenses:				
Compensation and Benefits	19,323,400	19,783,943	(460,543)	-2.33%
Supplies and Services	9,911,911	8,032,203	1,879,708	23.40%
Scholarships and Fellowships	2,306,547	2,239,190	67,357	3.01%
Depreciation	1,610,370	1,575,219	35,151	2.23%
Total operating expenses	33,152,228	31,630,555	1,521,673	4.81%
Operating loss	(10,462,807)	(10,996,554)	533,747	-4.85%
Nonoperating Revenues (Expenses):				
State Appropriations	9,103,081	10,201,912	(1,098,831)	-10.77%
State Grants and Contracts	447,391	681,216	(233,825)	-34.32%
Gifts	810,436	874,578	(64,142)	-7.33%
Investment income	187,348	537,963	(350,615)	-65.17%
Gain on disposal of assets	533	3,995	(3,462)	-86.66%
Interest expense	(179,354)	(77,040)	(102,314)	132.81%
Total nonoperating revenues (expenses)	10,369,435	12,222,624	(1,853,189)	-15.16%
Income before other revenues, expenses, gains, losses	(93,372)	1,226,070	(1,319,442)	-107.62%
Other Revenues:				
Capital Improvement Bonds	202,229	139,506	62,723	44.96%
Change in Net Assets	108,857	1,365,576	(1,256,719)	-92.03%
Net Assets, Beginning of Year	42,383,081	41,017,505	1,365,576	3.33%
Net Assets, End of Year	\$ 42,491,938	\$ 42,383,081	\$ 108,857	0.26%





The Condensed Summary of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented in this Summary follow.

Tuition was increased in fiscal year 2004 by 15% in an effort to offset an 11% base reduction of General Fund Appropriations. The University is beginning to rely more heavily on tuition, fees and other revenues to cover operational costs in an environment where State Appropriations are diminishing annually. During fiscal year 2004, State dollars represented approximately 28% of the University's total current operating revenues.

A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is billed to the student and/or third parties making payments on behalf of the student. The reduction of published student fees below the published rate either by governmental mandate or a separately negotiated contract rate is not considered a scholarship allowance or tuition discount.

Scholarship allowances increase when grants/scholarships to students increase. Lander's students received more SC Teaching Fellows, Palmetto Fellows, Life and Hope Scholarships than in the previous fiscal year. Students used these funds to pay tuition and fees; however, the revenue was recorded in Grants and Contracts. Further, the 2004 federal budget provided for a modest increase in the SEOG and Pell Grant programs.

During fiscal year 2004, the University (along with all State agencies) incurred a mid-year state appropriation reduction. The reduction, which was made permanent by the General Assembly, resulted in a loss of \$91,682 for the University. State appropriations in fiscal year 2004 were \$1,125,421 less than in fiscal year 2003. The University's appropriation has been reduced by a total of \$3,193,231 over the past four years, making the fiscal year 2004 state appropriation approximately 25% less than the fiscal year 2001 state appropriation.

The University has purchased and is installing a new institutional software package, SCT Banner. The Finance and Admissions components became operational July 1, 2004. Other components will be activated at various times throughout 2005. With a total cost of \$3 million which includes hardware, software, training, implementation, and maintenance, the University, through best management practices, was able to pay all but \$656,000 in fiscal year 2004. The balance of this purchase will be funded during fiscal year 2005 through a combination of one time fund balance transfers and other recurring budgeted sources.

Other projects for the year included the finalization of the physical plant relocation plan and the beginnings of the new residence hall on the northwest side of the campus. The retro-fit of the exterior columns around the Horne Arena and Athletic Facility was completed, as well. Various energy saving projects, including the cooling tower replacement for the Carnell Learning Center, have resulted in utility savings for the campus.

Statement of Cash Flows

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

Economic Outlook

Management is not aware of any facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during fiscal year 2005.

The University is looking forward to other campus upgrade initiatives in fiscal year 2005 by expanding its Food Service options and remodeling the main cafeteria in the Grier Student Center; creating a new entrance boulevard into the Lander University campus from Calhoun Avenue ending in front of the Horne Arena. This project will replace the existing residential street (Crews) that is the primary access to Lander. The new boulevard will be built through an existing gravel parking lot and other property already owned by the University. The project will include the construction of the road with curbs, sidewalks, landscaping, lighting, a small fountain, and 230 paved spaces for general and visitor parking. Utilities will be relocated as required. The existing street will be demolished and the area landscaped. Funding for this project has been earmarked from prior years carry-forward and grant funds secured from other sources.

Even with a relatively flat funded year in 2004, the University was able to generate an increase in Net Assets. The University anticipates fiscal year 2005 will not be substantially different from the last. A tuition increase of 8.5% for fiscal year 2005 has been adopted by the Board of Trustees. Fall enrollment is projected to realize a modest increase. These two factors coupled together should give the University the resources to maintain its ability to react to unknown internal and external issues.

LANDER UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 10,339,439
Restricted cash and cash equivalents	9,959,102
Accounts receivable - Net	336,711
Interest receivable	137,038
Due from others	5,887
Inventories	248,995
Prepaid items	<u>631,913</u>
Total current assets	<u>21,659,085</u>

NONCURRENT ASSETS

Restricted assets	
Cash and cash equivalents	206,824
Student loans receivable	1,367,128
Capital assets - Net	<u>35,028,043</u>
Total noncurrent assets	<u>36,601,995</u>
Total assets	<u>\$ 58,261,080</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 544,133
Accrued payroll and related liabilities	357,487
Accrued interest payable	48,682
Long-term liabilities - Current	1,251,940
Deposits held for others	14,277
Other deposits	3,546
Deferred revenues	<u>481,668</u>
Total current liabilities	<u>2,701,733</u>

NONCURRENT LIABILITIES

General obligation bonds	9,640,000
Premium on bonds	42,431
Revenue bonds	1,485,000
Accrued compensated absences	451,799
Student deposits	63,460
Perkins Loan Program - Federal liability	<u>1,384,719</u>
Total noncurrent liabilities	<u>13,067,409</u>
Total liabilities	<u>\$ 15,769,142</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 23,363,043
Restricted for:	
Expendable:	
Grants and contracts	235,065
Loans	216,989
Capital projects	9,985,873
Debt service	910,656
Unrestricted	<u>7,780,312</u>
Total net assets	<u>\$ 42,491,938</u>

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2004

REVENUES

Operating revenues	
Student tuition and fees (net of scholarship allowances of \$6,406,498)	\$ 8,756,354
Federal grants and contracts	3,030,965
State grants and contracts	4,333,546
Nongovernmental grants and contracts	1,446
Sales and services of educational and other activities	366,115
Auxiliary enterprises (pledged as security for revenue bonds)	
Housing	2,906,935
Bookstore (net of scholarship allowances of \$135,298)	1,516,491
Food service	1,576,357
Other fees	197,320
Other operating revenues	3,892
	<hr/>
Total operating revenues	22,689,421

EXPENSES

Operating expenses	
Compensation and benefits	19,323,400
Supplies and services	9,911,911
Scholarships and fellowships	2,306,547
Depreciation and amortization	1,610,370
	<hr/>
Total operating expenses	33,152,228
Operating loss	<hr/> (10,462,807)

NONOPERATING REVENUES (EXPENSES)

State appropriations	9,103,081
State grants and contracts	447,391
Private gifts	810,436
Investment income	187,348
Net gain on disposal of assets	533
Interest on capital assets-related debt	(179,354)
	<hr/>
Net nonoperating revenues	10,369,435
Income before other revenues, expenses, gains, or losses	(93,372)
Capital improvement bond proceeds	<hr/> 202,229
Increase in net assets	108,857

NET ASSETS, BEGINNING OF YEAR	<hr/> 42,383,081
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NET ASSETS, END OF YEAR	<u><u>\$ 42,491,938</u></u>
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The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Student tuition and fees	\$ 8,882,434
Federal grants and contracts	3,111,802
State grants and contracts	4,333,546
Nongovernmental grants and contracts	1,446
Sales and services of educational and other activities	366,115
Auxiliary enterprises	5,987,180
Other fees	197,320
Other operating revenues	3,892
Payments to suppliers	(12,664,215)
Payments to employees	(18,945,467)
New loans to students	(308,772)
Collection of loans	<u>274,484</u>
Net cash used for operating activities	<u>(8,760,235)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	9,103,081
State grants and contracts	447,391
Private gifts	<u>866,462</u>
Net cash provided by noncapital financing activities	<u>10,416,934</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	10,000,000
Premium on bonds	44,674
Proceeds from capital improvement bonds	156,488
Purchases of capital assets	(1,792,841)
Proceeds from sale of equipment	533
Principal paid on debt obligations	(170,000)
Interest paid	<u>(145,046)</u>
Net cash provided by capital and related financing	<u>8,093,808</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>204,807</u>
Net cash provided by investing activities	<u>204,807</u>
Net increase in cash and cash equivalents	<u>9,955,314</u>

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,550,051</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR (including \$10,165,926 restricted cash and cash equivalents)	<u>\$ 20,505,365</u>
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RECONCILIATION

Operating loss	\$ (10,462,807)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization	1,610,370
Allowance for uncollectible accounts	2,136

(Continued)

LANDER UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2004

RECONCILIATION, Continued

Changes in assets and liabilities:	
Receivables	138,907
Inventories	(36,821)
Prepaid expenses	(521,755)
Student loans receivable	39,809
Due to/from others	4,003
Payables	315,816
Deferred revenues	65,873
Deposits	(12,604)
Compensated absences	<u>96,838</u>
Cash flows used for operating activities	<u>\$ (8,760,235)</u>

NONCASH TRANSACTIONS

Equipment acquired through gifts	<u>\$ 23,019</u>
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The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
THE LANDER FOUNDATION - A COMPONENT UNIT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 314,744
Student loans receivable	7,279
Prepaid asset	62,151
Pledges receivable	<u>122,819</u>
Total current assets	506,993

OTHER ASSETS

Pledges receivable	230,864
Long-term investments	10,856,366
Investments in real estate	378,656
Other investments	<u>2,000</u>

Total assets	<u><u>\$ 11,974,879</u></u>
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LIABILITIES

CURRENT LIABILITIES

Due to Lander University	\$ 30,410
Due to related parties	<u>181,274</u>
Total current liabilities	<u>211,684</u>

NET ASSETS

Unrestricted	2,629,119
Temporarily restricted	<u>9,134,076</u>
Total net assets	<u>11,763,195</u>

Total liabilities and net assets	<u><u>\$ 11,974,879</u></u>
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The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
THE LANDER FOUNDATION - A COMPONENT UNIT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

	Unrestricted	Temporarily restricted	Total
REVENUE AND SUPPORT			
Contributions	\$ 230,940	\$ 961,189	\$ 1,192,129
Investment gain - Net	<u>154,413</u>	<u>584,909</u>	<u>739,322</u>
	385,353	1,546,098	1,931,451
Net assets released from restrictions			
Satisfaction of restrictions	<u>599,187</u>	<u>(599,187)</u>	<u>-</u>
Total revenue, support and reclassifications	<u>984,540</u>	<u>946,911</u>	<u>1,931,451</u>
PROGRAM EXPENSES			
Scholarships	490,383	-	490,383
Grants and other approved programs	<u>589,236</u>	<u>-</u>	<u>589,236</u>
Total program expenses	<u>1,079,619</u>	<u>-</u>	<u>1,079,619</u>
SUPPORTING SERVICES			
Board approved expenses	40,600	-	40,600
Insurance	12,207	-	12,207
Transfer of property to Lander University	3,200	-	3,200
Property expenses	2,766	-	2,766
Interest expense	1,749	-	1,749
Professional fees	<u>6,275</u>	<u>-</u>	<u>6,275</u>
Total supporting services	<u>66,797</u>	<u>-</u>	<u>66,797</u>
Total program and supporting services expenses	<u>1,146,416</u>	<u>-</u>	<u>1,146,416</u>
Increase (decrease) in net assets	(161,876)	946,911	785,035
NET ASSETS, BEGINNING OF YEAR	<u>2,790,995</u>	<u>8,187,165</u>	<u>10,978,160</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,629,119</u></u>	<u><u>\$ 9,134,076</u></u>	<u><u>\$ 11,763,195</u></u>

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Lander University (University) is a State-supported, coeducational institution of higher education. The University's commitment to extending educational opportunities to an array of varying constituencies reflects its belief that citizens of a free society have a right to the enriching benefits of a higher education.

Reporting entity

The University is part of the primary government of the State of South Carolina. Its funds are reported in the higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

The Lander Foundation (Foundation) is a legally separate, tax-exempt component unit of Lander University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Complete financial statements for the Foundation can be obtained from the Foundation Office at Stanley Avenue, Greenwood, SC 29649.

Financial Statements

The financial statement presentation for the University meets requirements of (GASB) *Governmental Accounting Standards Board*, Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows.

Basis of accounting

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

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

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and cash equivalents

For purposes of the statement of cash flows, the University as well as the Foundation consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Investments

Investments of the Foundation are carried at fair value. Gains or losses that result from market fluctuation are reported in the current period.

Accounts receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories, which consist of bookstore inventories for resale, are carried at the lower of cost or market. The cost of textbooks is reported on a weighted average basis while the cost of merchandise is reported on a first-in, first-out basis.

Prepaid items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of equipment maintenance contracts and deposits on goods not yet received.

Capital assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

Deferred revenues and deposits

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deposits represent dormitory room deposits, security deposits for possible room damage, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the University's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of 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 salary-related employee benefits.

Net assets

The University's net assets are classified as follows:

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

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

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

The University's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The net assets of the Foundation are classified as follows:

Temporarily restricted net assets -Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets -Net assets not subject to donor-imposed restrictions.

Income taxes

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

The Foundation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, as amended.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Classification of revenues

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

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

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

Sales and services of educational and other activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from tournaments, student-related activities and workshops.

Auxiliary enterprises and internal service activities

Auxiliary enterprise revenues primarily represent revenues generated by housing, food service and bookstore. Revenues of internal service and auxiliary enterprise activities and the related expenditures of University departments have been eliminated.

Scholarship discounts and allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Use of estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Generally, deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments of the Foundation are not under the State Treasurer's control.

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

<u>Statement of net assets</u>	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents (current)	\$ 20,298,541	\$ 314,744
Restricted cash and cash equivalents (non-current)	206,824	-
	<u>\$ 20,505,365</u>	<u>\$ 314,744</u>

Footnotes

Cash on hand	\$ 7,799	\$ -
Deposits held by State Treasurer	20,106,226	-
Other deposits	391,340	314,744
	<u>\$ 20,505,365</u>	<u>\$ 314,744</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. At June 30, 2004, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits

At June 30, 2004, the bank balance of the University's other deposits was \$391,340. These funds were fully insured or collateralized by securities held by the University's agent in the University's name.

Restricted cash and cash equivalents of \$9,959,102 and \$206,824 at June 30, 2004, represents bond proceeds restricted for capital expenditures and cash balances associated with the Perkins Loan Program, respectively.

Investments

The Foundation pools assets of restricted and unrestricted funds in order to maximize potential earnings. Income, realized gains and losses, and unrealized gains and losses are allocated among the various funds in the pool of assets.

Major classifications of investments are as follows:

<u>Pooled investments</u>	<u>Fair market value</u>
Temporarily restricted cash investments	\$ 519,204
Government and corporate bonds	3,156,680
Common stocks	6,300,266
Common trust funds	880,216
	<u>\$ 10,856,366</u>

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Investment income (loss) is summarized as follows:

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Total</u>
Dividend and interest income	\$ 58,176	\$ 218,695	\$ 276,871
Realized gains	66,230	260,520	326,750
Unrealized gains	49,173	181,086	230,259
Investment fees	<u>(19,166)</u>	<u>(75,392)</u>	<u>(94,558)</u>
	<u>\$ 154,413</u>	<u>\$ 584,909</u>	<u>\$ 739,322</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2004, are summarized as follows:

Receivables:

Student accounts	\$ 148,186
Federal grants and contracts	97,295
Capital improvement bond proceeds	56,188
Due from The Lander Foundation	30,410
Other	<u>50,632</u>
Gross receivable	382,711
Less: Allowance for uncollectibles student accounts	<u>46,000</u>
Receivables, net	<u>\$ 336,711</u>

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

NOTE 4 - RESTRICTED STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise all of the loans receivable as of June 30, 2004. The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the United States Department of Education.

NOTE 5 - CAPITAL ASSETS

	Beginning balance July 1, 2003	Increases	Decreases	Ending balance June 30, 2004
Capital assets not being depreciated:				
Land and improvements	\$ 2,531,642	\$ 140,000	\$ -	\$ 2,671,642
Construction in-progress	405,026	734,111	(405,026)	734,111
Art and historical collections	<u>83,480</u>	<u>-</u>	<u>-</u>	<u>83,480</u>
Total capital assets not being depreciated	<u>3,020,148</u>	<u>874,111</u>	<u>(405,026)</u>	<u>3,489,233</u>
Other capital assets:				
Land improvements	152,579	-	-	152,579
Buildings and improvements	50,464,904	433,001	-	50,897,905
Machinery, equipment, and other	1,893,035	149,272	(54,085)	1,988,222
Vehicles	334,217	46,626	(9,760)	371,083
Intangibles	<u>555,611</u>	<u>717,876</u>	<u>-</u>	<u>1,273,487</u>
Total other capital assets at historical cost	<u>53,400,346</u>	<u>1,346,775</u>	<u>(63,845)</u>	<u>54,683,276</u>
Total capital assets	<u>56,420,494</u>	<u>2,220,886</u>	<u>(468,871)</u>	<u>58,172,509</u>
Less accumulated depreciation for:				
Land improvements	128,166	6,103	-	134,269
Buildings and improvements	19,402,391	1,317,940	-	20,720,331
Machinery, equipment, and other	1,425,155	100,850	(54,085)	1,471,920
Vehicles	216,919	9,326	(9,760)	216,485
Intangibles	<u>425,310</u>	<u>176,151</u>	<u>-</u>	<u>601,461</u>
Total accumulated depreciation and amortization	<u>21,597,941</u>	<u>1,610,370</u>	<u>(63,845)</u>	<u>23,144,466</u>
Capital assets, net	<u>\$ 34,822,553</u>	<u>\$ 610,516</u>	<u>\$ (405,026)</u>	<u>\$ 35,028,043</u>

The gain on disposal of assets was \$533. There was no loss on disposal of assets.

Interest charged to expense totaled \$179,354 for the year ended June 30, 2004. No interest was capitalized.

NOTE 6 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

(Continued)

NOTE 6 - PENSION PLANS, Continued

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 10.85 percent which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2004, 2003 and 2002 were \$823,082, \$881,535 and \$835,646, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$16,353 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 13.6 percent which, as for the SCRS, included the 3.30 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2004, 2003 and 2002, were \$32,448, \$35,606 and \$35,206, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$618 and accidental death insurance contributions of \$618 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$220,459 (excluding the surcharge) from the University as employer and \$175,199 from its employees as plan members. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

(Continued)

NOTE 6 - PENSION PLANS, Continued

Deferred Compensation Plans

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

Teacher and Employee Retention Incentive

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

NOTE 7 - POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides 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 these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,400 State retirees meet these eligibility requirements.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$1,117,165 for the year ended June 30, 2004. The University paid \$466,310 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 8 - LITIGATION, CONTINGENCIES AND PROJECT COMMITMENTS

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$3,346,142 of authorized state capital improvement bond proceeds available to draw at June 30, 2004.

At June 30, 2004, the University had commitments for capital projects with outstanding balances totaling \$1,678,500. These commitments include the purchase of institutional software of \$3,000,000, of which \$656,000 was outstanding; architectural and engineering fees for the design of Centennial Hall of \$672,000, with \$241,000 outstanding; construction of the Physical Plant for \$777,486, with \$627,000 outstanding; Grier Student Center kitchen waste drains of \$203,000 with \$154,500 outstanding.

The University is a party to various litigation as a defendant, arising from its normal operations. Management does not anticipate material losses in connection with these claims.

NOTE 9 - LEASE OBLIGATIONS

Commitments for operating leases with external parties having remaining noncancelable terms in excess of one year as of June 30, 2004 were as follows:

<u>Year ended June 30,</u>	<u>Equipment</u>	<u>Real property</u>
2005	\$ 6,638	\$ 275,001
2006	6,288	275,001
2007	6,288	1
2008	6,288	1
2009	6,288	1
2010 - 2046	-	36
Total minimum lease payments	<u>\$ 31,790</u>	<u>\$ 550,041</u>

Operating Leases

The University's noncancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for fiscal year 2004 were \$347,375, including regular payments of \$290,549 and contingent payments, on a per copy basis, of \$56,826.

The University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease has an annual rental rate of one dollar and expires June 30, 2046. The lessor may continue to use the property rent-free for three months each year.

The University renewed and extended a real property operating lease agreement through the Office of Property Management for Greenwood High Apartments for the housing of University students. The annual lease rate is \$275,000. The agreement expires July 31, 2006.

NOTE 10 - BONDS PAYABLE

At June 30, 2004, bonds payable consisted of the following:

\$10,000,000 general obligation bonds issued June 2004 and due in annual installments of \$355,000 to \$735,000 through 2024, with interest at 3.00% to 5.00% .	\$ 10,000,000
\$2,000,000 revenue bonds issued May 2002 and due in annual installments of \$165,000 to \$255,000 through 2012, with interest at 4.70%. Auxiliary enterprise revenues are pledged as security for the bonds.	<u>1,665,000</u>
	<u>\$ 11,665,000</u>

The scheduled maturities of bonds payable are as follows:

Year ending June 30,	General obligation bonds		Revenue bonds		Total bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 360,000	\$ 427,675	\$ 180,000	\$ 78,255	\$ 540,000	\$ 505,930
2006	355,000	416,875	185,000	69,795	540,000	486,670
2007	365,000	406,225	195,000	61,100	560,000	467,325
2008	375,000	395,275	200,000	51,935	575,000	447,210
2009	390,000	380,275	210,000	42,535	600,000	422,810
2010 - 2014	2,155,000	1,676,875	695,000	67,210	2,850,000	1,744,085
2015 - 2019	2,655,000	1,198,538	-	-	2,655,000	1,198,538
2020 - 2024	3,345,000	518,000	-	-	3,345,000	518,000
	<u>\$10,000,000</u>	<u>\$ 5,419,738</u>	<u>\$ 1,665,000</u>	<u>\$ 370,830</u>	<u>\$ 11,665,000</u>	<u>\$ 5,790,568</u>

Proceeds of the general obligation bonds are being used for the construction of a new residence hall facility.

NOTE 11 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004 was as follows:

	June 30, 2003	Additions	Reductions	June 30, 2004	Current portion
Bonds and notes payable and installment purchase obligations					
General obligation bonds	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ 360,000
Unamortized premium	-	44,861	187	44,674	2,243
Revenue bonds	<u>1,835,000</u>	<u>-</u>	<u>170,000</u>	<u>1,665,000</u>	<u>180,000</u>
Total bonds	1,835,000	10,044,861	170,187	11,709,674	542,243
Other liabilities					
Accrued compensated absences	894,410	628,634	531,796	991,248	539,449
Student deposits	228,375	145,743	140,410	233,708	170,248
Perkins Loan Program - Federal liability	<u>1,431,363</u>	<u>-</u>	<u>46,644</u>	<u>1,384,719</u>	<u>-</u>
Total long-term liabilities	<u>\$ 4,389,148</u>	<u>\$ 10,819,238</u>	<u>\$ 889,037</u>	<u>\$ 14,319,349</u>	<u>\$ 1,251,940</u>

NOTE 12 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational programs. These entities include The Lander Foundation and the Lander Alumni Association (Alumni Association).

(Continued)

NOTE 12 - RELATED PARTIES, Continued

Following is a more detailed discussion of each of these entities and a summary of significant transactions between these entities and the University for the year ended June 30, 2004.

The Foundation, a component unit which has assets exceeding \$2,000,000, is organized exclusively to promote the development and welfare of the University in its educational purposes. The activities of the Foundation are governed by its board of directors. The Foundation's financial statements are audited by independent auditors retained by them.

The Alumni Association, which has assets of less than \$2,000,000, was established by alumni to promote academic improvements, to assist in scholarship programs, to further the interests of the University and to promote among its present and former students and friends good fellowship and loyalty. The Alumni Association's financial statements were internally compiled by the Association's management and are not presented in these financial statements.

During the year ended June 30, 2004, the University received approximately \$494,000 from the Foundation and approximately \$17,000 from the Alumni Association for restricted scholarships. The University also received approximately \$300,000 from the Foundation for various approved programs related to academic and administrative areas within the University. At June 30, 2004 the University had a \$30,411 receivable from the Foundation.

The University purchased land from the Foundation for \$130,000 during the year ended June 30, 2004.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

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

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

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

- Business interruptions
- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary
- Inland marine

(Continued)

NOTE 13 - RISK MANAGEMENT, Continued

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

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

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from dishonest or fraudulent acts, limited to \$100,000 for dishonesty, \$50,000 for forgery or alteration, and \$5,000 from theft, disappearance, and destruction. The University also obtains coverage through a commercial insurer for medical insurance covering student athletes.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a state or commercial insurer.

NOTE 14 - INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT - WIDE COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

The University's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the University's business-type activities in the State's government-wide Statement of Activities.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (decrease)</u>
Charges for services	\$ 22,685,529	\$ 20,621,386	\$ 2,064,143
Operating grants and contributions	1,449,600	2,110,367	(660,767)
Expenses	<u>(33,331,582)</u>	<u>(31,707,595)</u>	<u>(1,623,987)</u>
Net program expense	<u>(9,196,453)</u>	<u>(8,975,842)</u>	<u>(220,611)</u>
Transfers			
State appropriations	9,103,081	10,201,912	(1,098,831)
Capital improvement bond proceeds	<u>202,229</u>	<u>139,506</u>	<u>62,723</u>
Total transfers	<u>9,305,310</u>	<u>10,341,418</u>	<u>(1,036,108)</u>
Change in net assets	108,857	1,365,576	(1,256,719)
Net assets, beginning of year	<u>42,383,081</u>	<u>41,017,505</u>	<u>1,365,576</u>
Net assets, end of year	<u>\$ 42,491,938</u>	<u>\$ 42,383,081</u>	<u>\$ 108,857</u>

Tuition fees, as defined by South Carolina Code of Laws Section 59-107-90, were \$11,967,605 for the year ended June 30, 2003.

NOTE 15 - TRANSACTION WITH STATE ENTITIES

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the year ended June 30, 2004:

Original appropriation per Annual Appropriations Act	\$ 9,168,173
Appropriation reduction	(91,682)
From Commission on Higher Education	
Academic Endowment	17,174
Access and Equity	<u>9,416</u>
Total state appropriations	<u>\$ 9,103,081</u>
Capital improvement bond proceeds received during the year	\$ 156,488
Amounts recognized as a receivable in prior year	(10,447)
Amounts recognized as a receivable in current year	<u>56,188</u>
Amounts recognized as revenue in current year	<u>\$ 202,229</u>

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

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

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contribution, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2004 expenditures applicable to related transactions with state entities are not readily available.

NOTE 16 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2004 are summarized as follows:

	<u>Compensation and benefits</u>	<u>Supplies and services</u>	<u>Scholarships and fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 10,334,879	\$ 1,243,630	\$ -	\$ -	\$ 11,578,509
Research	434	10,755	-	-	11,189
Public service	1,353	150	-	-	1,503
Academic support	961,917	543,706	-	-	1,505,623
Student services	2,131,156	864,326	-	-	2,995,482
Institutional support	2,634,535	1,990,945	-	-	4,625,480
Operation and maintenance of plant	2,629,853	1,282,056	-	-	3,911,909
Scholarships and fellowships	-	-	2,306,547	-	2,306,547
Auxiliary enterprises	629,273	3,976,343	-	-	4,605,616
Depreciation	-	-	-	1,610,370	1,610,370
Total operating expenses	<u>\$ 19,323,400</u>	<u>\$ 9,911,911</u>	<u>\$ 2,306,547</u>	<u>\$ 1,610,370</u>	<u>\$ 33,152,228</u>



**INDEPENDENT AUDITOR'S 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 Lander University as of and for the year ended June 30, 2004, and have issued our report thereon dated August 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Lander University'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 Lander University'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 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.

This report is intended solely for the information and use of the Governor and the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

August 11, 2004



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Lander University with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2004. Lander University's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Lander University's management. Our responsibility is to express an opinion on Lander University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Lander University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lander University's compliance with those requirements.

In our opinion, Lander University complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2004.

Internal control over financial reporting

The management of Lander University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Lander University's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor and the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

August 11, 2004

LANDER UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2004

Federal grantor/ Pass-through grantor/ Program title	Federal CFDA number	Pass through grantor's number	Total expenditures
UNITED STATES DEPARTMENT OF AGRICULTURE			
Passed through South Carolina Forestry Commission:			
Urban and Community Forest Grant	10.661	2003L117	\$ 6,141
Total United States Department of Agriculture			6,141
UNITED STATES DEPARTMENT OF EDUCATION			
Direct Programs:			
Federal Supplemental Educational Opportunity Grant	84.007		165,935
Federal Work-Study Program	84.033		144,985
Federal Perkins Loan Program	84.038		59,773
Federal Pell Grant Program	84.063		2,547,898
Total direct programs			2,918,591
Passed through South Carolina Commission on Higher Education:			
Gaining Early Awareness and Reading for Undergraduate Programs	84.334	P334A990172-03	972
Gaining Early Awareness and Reading for Undergraduate Programs	84.334	P334A990172-04	15,365
Gaining Early Awareness and Reading for Undergraduate Programs	84.334	P334A990172-05	118,489
Total Commission on Higher Education			134,826
Total U.S. Department of Education			3,053,417
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		25,052
Passed through University of South Carolina:			
SC-BRIB/EPSCOR Network Seminar Award (NSA)	93.389	P20 RR-016461	155
Total U.S. Department of Health and Human Services			25,207
Total Federal assistance expended			\$ 3,084,765

Note 1 The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lander University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 Lander University had the following loan balances outstanding at June 30, 2004. These loan balances outstanding are also included in the statement of net assets.

Cluster/Program Title	Federal CFDA Number	Amount outstanding
Federal Perkins Loan Program	84.038	\$ 1,367,128

LANDER UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lander University.
2. No reportable conditions relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the financial statements of Lander University were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award program for Lander University expresses an unqualified opinion.
6. The programs tested as major programs include:

Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Lander University qualifies as a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

LANDER UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2004

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None