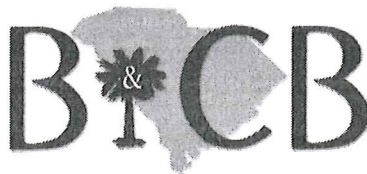


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## MEMORANDUM

TO: Budget and Control Board Member Liaisons

FROM: Les Boles 

DATE: April 14, 2014

RE: SC State University Update

Attached is a summary of our review to date of SC State University's financial situation.

## SOUTH CAROLINA STATE UNIVERSITY REVIEW SUMMARY

On January 24, 2014, the State Budget and Control Board was formally notified by South Carolina State University (SCSU) of a projected operating budget and cash deficiency of \$13.6 million for the current fiscal year. According to SCSU the deficit was due primarily to declining student enrollment. Additionally, to close the prior fiscal year, SCSU temporarily borrowed \$2.3 million from the SC State 1890 funds and carried forward \$5.4 million in accounts payable for a total of \$7.7 million.

SCSU provided a summary of its Education and General (E&G) budget status and projections for the fiscal year including actual and projected revenue and expenditures indicating a fiscal end deficit of \$13.6 million. The President of SCSU appeared before the Budget and Control Board on March 5, 2014 to present the University's financial situation.

The State Budget Division has worked with SCSU to analyze the projected \$13.6 million E&G shortfall. Budget Division staff worked with the University to evaluate projected revenues and expenditures and accounts payable balances through the end of the current fiscal year. Staff traveled to the University four times and met with the Vice President of Finance, Interim Controller, Budget Director and Office of Accounts Payable staff. Documentation to support SCSU's revenue and expenditure projections was received and reviewed monthly. SCSU took action to reduce the projected cash deficit from \$13.6 million to \$13.3 million. During this fiscal year, SCSU continued a hiring freeze previously implemented and approval had to be received before hiring positions. This action assisted the University saving approximately \$269,000 that would have been spent had the positions been filled. Additionally, SCSU eliminated temporary positions resulting in savings of \$67,000 and eliminated the majority of cell phones saving approximately \$61,000. Restricted use of procurement cards was implemented to assist in controlling purchasing. Potential savings from this action was not obtainable.

### Projected Revenues and Expenditures

The State Budget Division worked with SCSU officials to understand how the projected revenues and expenditures were determined by SCSU and if the amounts were reasonable. Several estimates were revised during the review period based upon prior year history or updated information. Attached is the expected revenue and expenditure cash flow projected through the end of the fiscal year based upon actual amounts through March 31, 2014. Analysis shows that after paying payroll and debt service payments SCSU is expected to end the year with an accounts payable balance of \$13.3 million. This is approximately \$300,000 less than the original projection of \$13.6 million.

The State Budget Division worked with SCSU to obtain cash balances available for E&G operations through the end of the year. The following is a summary of current cash balance, projected revenues, projected expenditures and ending accounts payable balance.

### Accounts Payable Reconciliation

	<u>Revenue and Expenditures</u>	<u>Accounts Payable</u>
AP Balance 3/31/2014		9,810,323
Cash, ending balance 3/31/2014	5,495,779	
Projected Revenue 4/1/14 through 6/30/14	5,849,746	
Expenditures 4/1/14 through 6/30/14 (Payroll and Utilities)	(8,602,036)	
Sodexo Future Student Center	(714,290)	
Debt Service	(1,279,700)	
Expenses Incurred (not paid) 4/1/14 – 6/30/14		4,316,514
 TOTAL	 <u>749,499</u>	 <u>14,126,837</u>
 Accounts Payable Satisfied 4/1/14 – 6/30/14		 (749,499)
 Ending Accounts Payable Balance		 <u>13,377,338</u>

### 1890 Funds

The cash balance available for E&G operations does **NOT** include the 1890 funds due to SCSU PSA as determined by the Office of the Inspector General (OIG) in his April 7, 2014 report. The OIG concluded that as of February 28, 2014 a total of \$6,478,866 should have been designated for the 1890 fund. The \$6.4 million consists of unused state PSA fund balance between FY 06-07 and FY 13-14. SCSU is working with the State Treasurer's Office to establish a separate bank account for the 1890 funds.

### Accounts Payable

The State Budget Division received accounts payable reports from SCSU. Total amounts for accounts payable due on May 1, 2014 (run on March 31, 2014) total \$8.8 million.<sup>i</sup> Of this amount, \$4 million or 46% is 120 days or more overdue and \$5.86 million or 66% is 60 or more days overdue. Two vendors, Sodexo Dining Services and UGL Unicco (facilities maintenance) represent \$7.3 million (83%) of all account payable balances. Three million of the \$7.3 million is 60 days or more overdue.

### FY 2014-15 Budget Plan

The President of SCSU, when testifying before the Budget and Control, stated that the University would have a balanced budget for FY 2014-15 if the current year's account payables were brought current. Planned initiatives for FY 2015 included:

- \$500,000 savings by eliminating low producing academic programs

- \$500,000 savings in Athletics
- Reductions in Administrative positions
- Increases in Enrollment
- Increases in Fundraising
- Further reductions in temporary positions
- Reduction of Overtime expenses
- Further Reductions in Discretionary Spending

The FY 2015 Budget Plan has not been developed at this time but it is anticipated that the Finance Committee of the Board of Trustees will receive proposals for use in adopting a budget to present to the Full Board of Trustees in early May. The Full Board Trustees will meet in June to adopt the FY 2015 Budget Plan.

In developing recommendations to be presented to the Finance Committee of the Board of Trustees, the Vice President of Finance has developed a work plan that would address the items presented to the Budget and Control Board at its March 5, 2014 meeting. In addition, the Vice President of Finance will work with the academics program to obtain a faculty and adjunct plan to ensure proper staffing levels and a list of unfunded requirements that are critical for meeting missions. Further, research will be conducted to determine appropriate tuition and fee increases and the current tuition and fee structure will be examined to determine if it accurately reflects how these resources are used.

In developing the FY 2015 Budget Plan, SCSU will breakout the University's budget by Education and General (E&G), Auxiliaries and Athletics. This is being done to provide transparency to the University's revenues and expenditures. For example, the Athletic Department received direct institutional support of \$6.8 million in FY 2012-13 from the University. The State Budget Division has no reference point to determine whether or not this is an appropriate level.

#### Cash Analysis

SCSU had \$16.9 million in cash as of March 31, 2014. Below is a summary of these funds and their obligation. The State Budget continues to work with SCSU to obtain information relating to the Restricted Funds and how these funds must be utilized and why they cannot be used to offset the operating deficit.

## CASH ANALYSIS

Cash Balance (Unrestricted and Restricted)	16,944,420
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Less:

Transfer to 1890 PSA Fund Bank Account	(6,458,798)
Restricted Funds (see below)	(7,373,916)

Cash in Unrestricted Cash	3,111,706*
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Plus:

Petty Cash	1,980
April Projected Revenue	2,382,142*
May Projected Revenue	1,929,796
June Projected Revenue	1,308,804
Federal Reimbursement	2,611,147

Less:

April Projected Expenditures	(4,790,438)
May Projected Expenditures	(2,958,254)
June Projected Expenditures	(3,596,883)

Projected Balance June 30, 2014	(0)
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* Cash available for E&G	5,493,848
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### Restricted Funds

Private Designated Funds	272,331
Capital Projects	820,178
Debt Service	4,433,035
Investment on Plan Fund	(83,849)
Loan Fund (EIA and Perkin Loan Funds)	853,254
Endowment Fund	646,122
Scholarship Fund	28,037
Agency Fund	404,808
Balance	7,373,916

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<sup>i</sup> The Accounts Payable balance on the Cash Flow document shows a balance of \$9.8 million. This amount includes an accounts payable balance of \$8.7 million, Indirect Costs Payments of \$350,000, and Procurement Card balance of \$565,000.

## ATTACHMENTS

Summary of Revenue and Expenditure Projections FY 2014

Monthly Revenue and Expenditure Analysis

Accounts Payable Report for May 1, 2014 (run March 31, 2014)

Selected FY 12-13 Financial Statements and Historical Analytics

Comparison of Selected 4-Year Institutions Enrollment, Revenue and Expenditures FY 07-08 thru FY 11-12

South Carolina University Fact Sheet FY 2008-09 thru FY 2012-13

South Carolina Public Institutions Five-Year Summary of Required Tuition and Fees for Full-Time Undergraduates (In-State and Out-of-State)

Office of Inspector General's Report on South Carolina State University 1890 Program, April 7, 2014