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Comprehensive Annual Financial Report for the Year Ended June 30, 2005

Clemson University

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CLEMSON

U N I V E R S I T Y

Clemson, South Carolina



Comprehensive Annual Financial Report

Included in the Higher Education Fund, an Enterprise Fund of the State of South Carolina

For the Year Ended June 30, 2005



Comprehensive Annual Financial Report

Included in the Higher Education Fund, an Enterprise Fund of the State of South Carolina

For the Year Ended June 30, 2005

Prepared by the Comptrollers Office

CLEMSON

UNIVERSITY

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Introductory Section



President's Letter 2005

Dear Friends of Clemson:

Clemson University continued its significant progress last year toward our goal of becoming a top-tier public research university. Studies have shown that a top-quality research university can be the key strategic catalyst to ensure innovation and sustained economic growth in a region and a state. At Clemson, we are proud to do our part to create this success model in South Carolina. We are on our way.

We witnessed the dawn of a new day in economic development for our state when the master plan for Clemson's automotive research campus in Greenville was presented in June. The planners envision five hilltop "villages" with connecting bridges and paths to foster interaction between educators, researchers and industry while protecting the environment of the site. With key appointments announced this year, roads completed and two facilities coming out of the ground, Clemson-ICAR has taken shape with remarkable speed. It is a testament to the power of partnership among university, community, state and industry leaders.

Our initiatives in research and economic development have contributed to the underlying quality of the undergraduate experience. This means excellent teachers, small classes and top-notch facilities. We are examining several new ideas to help challenge, engage and prepare undergraduates, including "living-learning" communities and pilot programs to provide service learning, research and study abroad experiences for as many students as possible.

Such outcomes are the real motivation behind Clemson's drive to be one of the nation's top 20 public universities. Our vision is not about a magazine ranking: It's about hiring and retaining outstanding faculty, attracting top students, providing an unmatched academic experience and contributing to the economy and quality of life of South Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read "James F. Barker", followed by a long horizontal line extending to the right. The signature is written over the printed name and title below it.

James F. Barker, FAIA
President





University Goals

• **Academics, research and service**

- Excel in teaching, at both the undergraduate and graduate levels.
- Increase research and sponsored programs to exceed \$150 million a year in research support.
- Set the standard in public service for land-grant universities by engaging the whole campus in service and outreach, including a focus on strategic emphasis areas.
- Foster Clemson's academic reputation through strong academic programs, mission-oriented research and academic centers of excellence, relevant public service and highly regarded faculty and staff.
- Seek and cultivate areas where teaching, research and service overlap.

• **Campus life**

- Strengthen our sense of community and increase our diversity.
- Recognize and appreciate Clemson's distinctiveness.
- Create greater awareness of international programs and increase activity in this area.
- Increase our focus on collaboration.
- Maintain an environment that is healthy, safe and attractive.

• **Student performance**

- Attract more students who are ranked in the top 10 percent of their high school classes and who perform exceptionally well on the SAT/ACT.
- Promote high graduation rates through increasing freshman retention, meeting expectations of high achievers and providing support systems for all students.
- Promote excellence in advising.
- Increase the annual number of doctoral graduates to the level of a top-20 public research university.
- Improve the national competitiveness of graduate student admissions and financial aid.

• **Educational resources**

- Campaign goal surpassed by 40 percent.
- Rededicate our energy and resources to improving the library.
- Increase faculty compensation to a level competitive with top-20 public universities.
- Increase academic expenditures per student to a level competitive with top-20 public universities.
- Manage enrollment to ensure the highest quality classroom experiences.

• **Clemson's national reputation**

- Promote high integrity and professional demeanor among all members of the University community.
- Establish a Phi Beta Kappa chapter.
- Have at least two Clemson students win Rhodes Scholarships.
- Send student ensembles to perform at Carnegie Hall.
- Have at least two Clemson faculty win recognition by national academies.
- Publicize both national and international accomplishments of faculty, staff and students.
- While maintaining full compliance, achieve notable recognition with another national football championship, two championships in Olympic sports and two Final Four appearances in basketball.

CLEMSON

UNIVERSITY

LETTER OF TRANSMITTAL

September 16, 2005

To President Barker,
Members of the Board of Trustees, and
Citizens of South Carolina

We are pleased to present to you the Comprehensive Annual Financial Report of Clemson University for the year ended June 30, 2005. The audit report of our auditors, KPMG LLP, appears in the Financial Section, and expresses an unqualified opinion on the University's financial statements.

INTRODUCTION

The Comprehensive Annual Financial Report includes the financial statements for the year ended June 30, 2005, and other information useful to those we serve and to those to whom we are accountable. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. We believe the information is accurate in all material respects and fairly presents the University's financial position, as well as revenues, expenses, changes in net assets and cash flows.

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (pages 20-27), which focuses on current activities, accounting changes, and currently known facts.

The Comprehensive Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 2005. The report is organized into three sections.

The *Introductory Section* includes the transmittal letter, a University overview and the Certificate of Achievement of Excellence in reporting awarded to the University for the year ended June 30, 2004. Also included is a listing of the University Board of Trustees and an organization chart. This section is

intended to acquaint the reader with the organization, structure and scope of operations of the University.

The *Financial Section* presents the basic financial statements, management's discussion and analysis and the report of the independent external auditors. The basic financial statements are prepared in accordance with generally accepted accounting principles for public colleges and universities, as defined by the Governmental Accounting Standards Board.

The *Statistical Section* contains selected financial, statistical, and demographic information. This information is intended to present to readers a broad overview of trends in the financial affairs of the University.

Clemson University was established in 1889 in accordance with the will of Thomas Green Clemson and the Acceptance Act of the General Assembly of South Carolina. Clemson University is governed by a board of thirteen members, including six elected by the State General Assembly and seven appointed self-perpetuating life members. Clemson University operates as a unit of the State of South Carolina (the primary government) as a state assisted institution of higher education.

The University has adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a related entity. Based on these criteria, the University has determined that the Clemson University Foundation and the Clemson University Research Foundation are component units of the University. Consequently, the financial statements now include the accounts of these two entities as discretely presented component units.



FINANCIAL AFFAIRS

Chief Business Officer G-06 Sikes Hall Box 345301 Clemson, SC 29634-5301

864.656.2420 FAX 864.656.2008

Major Initiatives

In 2004-2005, Clemson University continued its transformation from a respected state and regional university into a nationally ranked, selective research university that is helping to shape its state's economic future.

From a germ of an idea just a few years ago, the Clemson University International Center for Automotive Research (Clemson University ICAR) in Greenville became a reality this year. There were several significant milestones.

- The Master Plan for developing the 250-acre site was unveiled, along with plans for the Carroll A. Campbell Jr. Graduate Engineering Center, even as preliminary roads were paved and the first facility to be built, the Information Technology Research Center, was substantially completed.
- Thomas R. Kurfess, Ph.D., was hired from Georgia Tech to fill the first of four endowed chairs in automotive engineering funded through the SC Research Centers of Economic Excellence Act. Kurfess will hold the BMW Manufacturing Chair and be the director of the Campbell Graduate Engineering Center. Bob Geolas, formerly director of N.C. State's Centennial Campus, was named director of Clemson University ICAR.
- The 89,000-member Society of Automotive Engineers (SAE) announced its intention to partner with Clemson University ICAR and establish an office at the automotive research campus.
- An additional \$32 million in facilities and infrastructure funding was approved by the state infrastructure board.

The SC Research Centers for Economic Excellence Act of 2001 earmarked a portion of state lottery funds for research related to economic development. By requiring a private match, the funds help institutions leverage state support to raise capital from the private sector. Public and private funding commitments for automotive research at Clemson now approach \$150 million.

Other economic development initiatives recommended for funding in 2004-05 include \$5 million for a Human Genetics Graduate Education Center in Greenwood; \$8 million for a computational center for mobility systems; and \$7 million for two new endowed chairs in electron imaging and supply chain optimization and logistics.

A new Center for Flexible Packaging was opened with almost \$1 million in grants, contributions and in-kind donations from the packaging industry to Clemson's packaging science department.

Clemson physicists received a \$3 million grant from the US Department of Energy and the SC EPSCOR program to study the electrical and thermal properties of new materials that could reduce the world's reliance on fossil fuels.

US soldiers fighting in Iraq and Afghanistan are better dressed for battle, thanks to uniform redesign work accomplished at the Clemson Apparel Research Center, which is partially supported by the Department of Defense.

These projects represent just a few examples of the important research work done every year. Altogether, Clemson

announced in 2004-2005 a record-breaking \$115 million in competitive research grants and contracts for the previous fiscal year. Private giving and alumni support in 2004-2005 topped \$38.5 million, and the percentage of alumni giving to Clemson rose from 25 percent to 26 percent.

Also in 2004-2005, Clemson enrolled a freshman class whose SAT scores averaged higher than 1200 for the third straight year. Forty percent of freshman ranked in the top 10 percent of their high school graduating classes, and nine seniors received prestigious national grants and fellowships, including two Goldwater Scholarships, one Fulbright Fellowship, one National Defense Science and Engineering Graduate Fellowship and five National Science Foundation fellowships. A new program called C-CATS (Clemson's Challenge for Academically Talented Students) brought gifted high school freshmen and sophomores to campus for an introduction to Clemson academics and campus life.

The University also celebrated the 50th anniversary of co-education with ceremonies and educational programs recognizing the first women students in 1955. Two women were appointed in 2005 to head academic engineering departments in the College of Engineering and Sciences, a first. And the Women in Science and Engineering (WISE) program received the national 2005 Women in Engineering Initiative Award. According to PRISM, a leading engineering education magazine, Clemson ranks fourth nationally in the percent of engineering Ph.D.s granted to women.

A new scholarship and grant program called "The Palmetto Pact" was announced to ensure access to Clemson to all South Carolinians. It guarantees that every in-state freshman will receive a scholarship or grant that does not have to be repaid, either through state lottery, private or other revenues. It also directs financial aid dollars to supplement the top state award, the Palmetto Scholarship; to provide assistance to the Clemson-Coca Cola Scholars, the top-ranked minority and majority senior at each SC high school; to increase aid to graduates of the SC Governor's School for Math and Science, and to any SC student majoring in math or science education; and to expand campus living-learning communities such as RISE (Residence in Science and Engineering) and the proposed Civics and Service House and Community Scholars program for students interested in community service.

Clemson rose from 35th to 32nd in the "U.S. News and World Report" rankings of the nation's top national public universities, and was recognized by The Princeton Review, in the book "Colleges with a Conscience" as one of the 81 best colleges in the nation for fostering a sense of social responsibility and public service in students.

Major facilities projects in 2004-2005 included completion of the \$21 million Advanced Materials Research Laboratory at the Clemson Research Park in Anderson County. It is the first LEED-certified public building in South Carolina, meaning it meets the requirements of the U.S. Green Building Council for energy efficiency and environmental sustainability in building and design. The Board of Trustees in 2005 formally adopted an administrative policy that all new construction and any substantial renovations be LEED-certified. A \$25 million

renovation of the fraternity housing complex was completed by July 2005. It also incorporates sustainable building principles and practices.

FINANCIAL INFORMATION

Internal Control Structure and Budgetary Control

The Financial Affairs Division of the University is responsible for establishing and maintaining an effective structure of internal control. The structure of internal control is designed to ensure that certain organizational objectives are met. Accordingly, organizational structure, policies, and procedures have been established to safeguard assets, ensure the reliability of accounting data, promote efficient operations, and ensure compliance with established governmental laws, regulations and policies, University policies, and other requirements of sponsors to whom the University is accountable.

As a recipient of federal financial awards, the University is responsible for ensuring compliance with all applicable laws and regulations relating to such assistance. A combination of State and University policies and procedures, integrated with the University's structure of internal controls, provides for this compliance. The University has an annual single audit performed in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133.

The State Budget and Control Board requires the University to submit an annual balanced budget for both its Educational and General and Extension and Public Service components. Each recognized college or budget center of the University is provided with a level of appropriation. This appropriation limits total annual expenditures. Budgetary controls are incorporated into both the University's accounting system and the State's financial management system to ensure that imposed expenditure constraints are observed. Periodic financial reports comparing actual results with budgeted amounts are provided at both the University and State level.

Debt Administration

The University has developed a comprehensive debt management strategy to provide guidelines relative to acceptable levels of debt and to formulate a mechanism for calculating and monitoring debt while being cognizant of the effect of long-term borrowing on the University's credit rating. This strategy acknowledges that, although all University revenues are generally available to meet any need, debt issued for one operational segment should be repaid from the resources generated by that segment.

Cash Management

State law requires that substantially all of the University's receipts and disbursements be made using bank accounts in the name of the South Carolina State Treasurer. The State Treasurer performs almost all cash management activities for University cash balances on deposit in state bank accounts. As a participant in the State's cash management pool, the University does receive investment income allocations for

certain qualifying cash balances.

Risk Management

The University participates in a statewide risk management program under which the State assumes substantially all risks for unemployment and workers' compensation benefits and claims of covered employees for health, dental, and group-life insurance benefits. In addition, the University pays premiums to the State's Insurance Reserve Fund to cover the risk of loss related to the following assets and activities: real property, its contents, and other equipment, motor vehicles and aircraft, general tort claims, and medical malpractice claims. The University also obtains employee fidelity bond insurance coverage for all employees through a commercial insurer for losses arising from theft or misappropriation. The University believes that all coverage is sufficient to preclude any significant uninsured losses.

OTHER INFORMATION

Audits

State law, federal guidelines, and certain bond covenants require that the University's accounting and financial records be audited each year. For the fiscal year ended June 30, 2005, the State Auditor contracted with the independent certified public accounting firm of KPMG LLP, to perform the University's annual audit. Under the terms of this contract, KPMG LLP will perform the audit of the University's financial statements and the University's federal financial assistance programs for the next two years. Additionally, Clemson University internal auditors perform fiscal, compliance, and performance audits. The reports resulting from these audits are shared with you, the Board of Trustees, and the University's management.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Clemson University for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Clemson University has received the Certificate of Achievement annually since the fiscal year ended June 30, 1993. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report in a timely manner would not have been possible without the coordinated efforts of the Comptrollers Office and other University financial staff. Each member has our sincere appreciation for their contributions in the preparation of the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven E. Copeland". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Steven E. Copeland
Interim Chief Business Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Clemson University,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

CLEMSON UNIVERSITY BOARD OF TRUSTEES

(as of June 30, 2005)

TRUSTEES

Leon J. (Bill) Hendrix, Jr., *Chairman*
Chairman of the Executive Committee

J. J. Britton, *Vice Chairman*
Sumter OB-GYN, P.A.

Bill L. Amick
Chairman and CEO, Amick Farms

Lawrence M. Gressette, Jr.
SCANA Corporation

Thomas C. Lynch, Jr.
Pharmacist, Retired

Louis B. Lynn
President, ENVIRO AgScience, Inc.

Patricia Herring McAbee
Vice President, Custom Development Solutions

Leslie G. (Les) McCraw
Chairman and CEO, Retired Fluor Corporation

E. Smyth McKissick, III
President and Treasurer,
Alice Manufacturing Company, Inc.

Thomas B. McTeer, Jr.
President, McTeer Real Estate, Inc.

Robert L. Peeler
Agent, McGee Real Estate

William C. Smith, Jr.,
CEO, Holmes Smith Developments, Inc.

Joseph D. Swann
President, Rockwell Automation Power Systems

TRUSTEE EMERITI

Louis P. Batson, Jr.
Retired Chairman, Louis P. Batson Company

Fletcher C. Derrick, Jr.
Urologist

W. G. DesChamps, Jr.
President, Bishopville Petroleum Co., Inc.

Harold D. (Doug) Kingsmore
Chairman of the Board, Southern Weaving Company

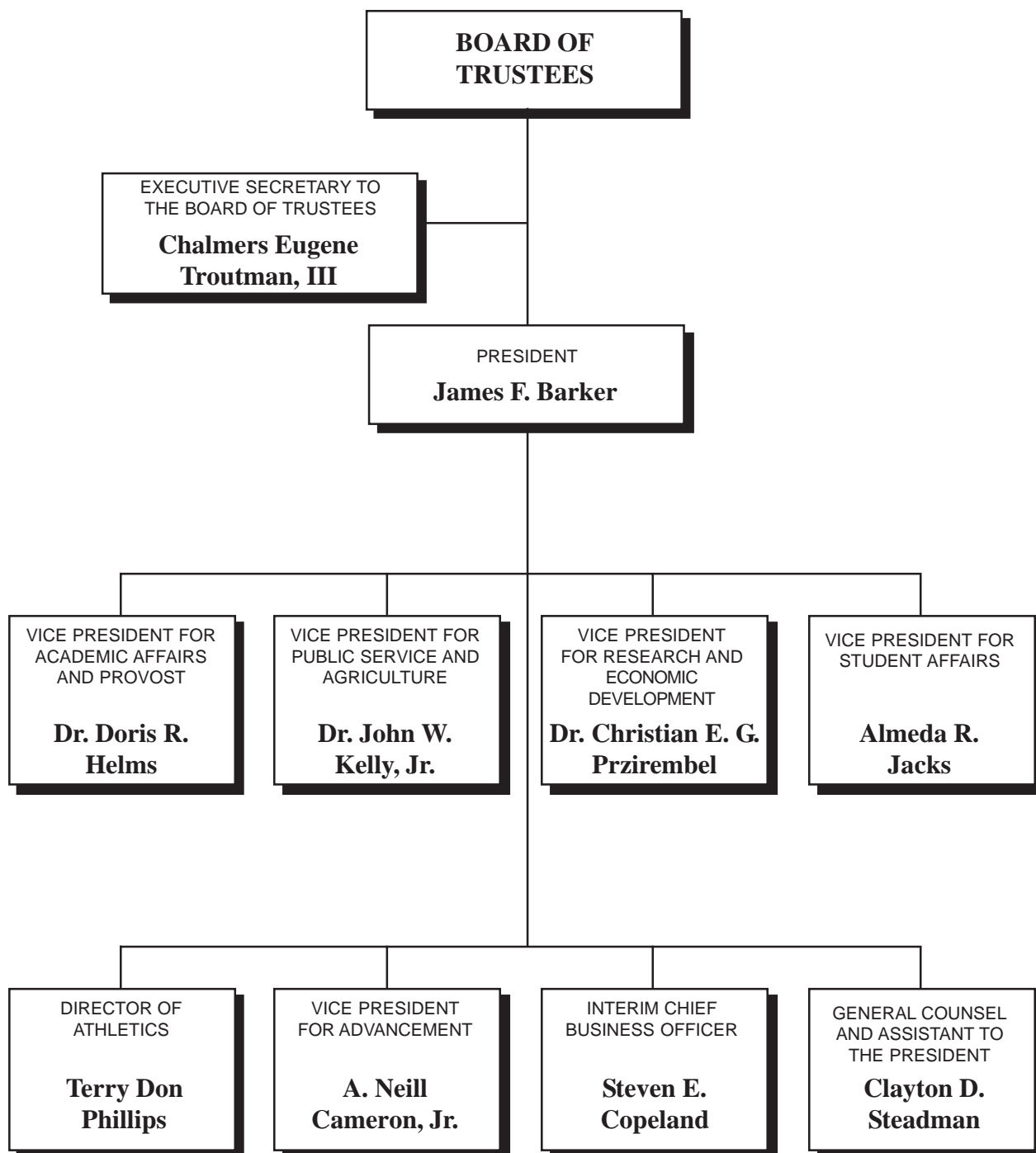
Paul W. McAlister
Retired

D. Leslie Tindal
Retired
South Carolina Commissioner of Agriculture

Allen P. Wood
Chairman, Mosley, Wilkins, Wood Associates, Ltd.

CLEMSON UNIVERSITY ORGANIZATION CHART

(as of June 30, 2005)





Financial Section

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 11, 2005

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

This report on the audit of the financial statements of Clemson University for the fiscal year ended June 30, 2005, was issued by KPMG, 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,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Clemson University (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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. The financial statements of Clemson University Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of Clemson University are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the business-type activities and aggregate discretely presented component units of the State of South Carolina that is attributable to the transactions of Clemson University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2005, 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 respective financial position of the business-type activities and the aggregate discretely presented component units for Clemson University as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis as listed in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory section, the supplementary information to the financial statements and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information to the financial statements 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our previous report dated September 16, 2005 did not indicate that the financial statements of Clemson University Foundation were not audited in accordance with *Government Auditing Standards*. Accordingly, our current report as presented herein is different from our previous report.

KPMG LLP

September 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

Clemson University is pleased to present its financial statements for fiscal year 2005. While audited financial statements for fiscal year 2004 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data.

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.

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 Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Clemson University. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution 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 restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consists solely of the University's permanent endowment funds and are only available for investment purposes. 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 net 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 and research programs and initiatives.

Assets – increase of \$50.8 million

- Current assets increased by \$2.2 million. The unrestricted cash increase was attributable to the Board-approved tuition increase of 12.7 percent. The restricted cash decrease resulted from the expenditure of previous year bond proceeds for capital projects. Grants and contracts receivable decreased \$1.1 million as more projects became collectible through electronic draws. Prepaid expenses increased \$1.2 million, mainly because of an advance payment of the next quarter's workers compensation premium.
- The net capital assets increase of \$37 million resulted from an increase in non-depreciable assets of \$26 million and an increase in depreciable assets of \$12.3 million. Construction in Progress accounted for \$23.4 million of the non-depreciable assets increase due to primarily three projects: the Clemson University International Center for Automotive Research (Clemson University ICAR), the renovation of the West End Zone at Memorial Stadium, and the renovation of the Fraternity Dormitories. The remaining \$1.3 million of the non-depreciable assets increase was attributable to the purchase of land for Clemson University ICAR. An increase in Buildings, primarily the completion of a new Research Lab Building, accounted for almost all of the increase in non-depreciable assets.
- The \$11.6 million increase in other assets was attributable to increases in restricted non-current cash and notes receivable. Restricted non-current cash increased \$7.7 million due to \$5 million in proceeds from the sale of land in the Myrtle Beach area, and \$2.2 million in State lottery funding received for two University endowments. The \$5 million increase in notes receivable stemmed from increases in the value of endowment assets held by the Clemson University Foundation.

Liabilities – decrease of \$1 million

- Current liabilities increased by \$7.8 million. The \$3.2 million increase in accounts payable was attributable to the accruals for several large capital projects at fiscal year end. The accrued payroll and related liabilities increase of \$3.2 million was due to a fiscal year end accrual of 100 percent, vs 90 percent for the previous year, plus a State mandated 4 percent pay raise that became effective with the final payroll of the fiscal year. This 4 percent pay raise also resulted in an increase in the accrued compensated absences and related liabilities of \$664,000. Current amounts due for long-term debt increased by almost \$1 million due to increased principal payments for existing debt.

UNAUDITED

- Noncurrent liabilities decreased by \$8.8 million. Payments for long-term debt contributed \$9.4 million towards this decrease. No new debt was issued this past fiscal year. The \$376,000 increase in funds held for others resulted from an increase in the Federal Perkins loan liability, and increases in longevity supplements for athletic coaches.

Net Assets – increase of \$51.8 million

- Capital assets, net of related debt contributed \$45.4 million of the \$51.8 million increase. This resulted from increases in net capital assets of \$37 million as discussed above, along with a decline in capital debt of \$8.5 million.
- The \$2.3 million increase in restricted – nonexpendable net assets for scholarships and fellowships primarily resulted from \$2.2 million in State lottery funding for two University endowed professorships.
- Restricted for expendable net assets decreased \$5.6 million, based on the following:
 - Appreciation in the assets held by the Clemson University Foundation of \$5 million, and \$5 million in proceeds from the sale of land in the Myrtle Beach area, were mainly responsible for the \$13.9 million increase in restricted – expendable net assets for scholarships and fellowships. Also contributing was an increase in private gifts, most of which was designated for scholarships and fellowships, of \$4.4 million.

- The expenditure of previously received bond proceeds for capital projects resulted in the \$18.4 million decrease in restricted – expendable net assets for capital projects.
- Restricted – expendable net assets for debt service decreased \$1.1 million due to the payment of capitalized interest provided by the previous year’s funding of revenue bonds.
- Restricted – expendable net assets for research, instructional department use, and for student loans exhibited no material change.
- Unrestricted net assets increased \$9.6 million, based on the following:
 - A substantial portion of the Board-approved 12.7 percent tuition increase was earmarked for the University’s Academic Road Map. Approximately 135 faculty members who had previously opted for the State Teachers and Employees Retirement Incentive (TERI) program will retire in the next fiscal year. Almost \$6.3 million was earmarked for new faculty salaries and infrastructure improvements to support the new faculty members.
 - Increases for Food Services of \$628,000 and Athletics of \$468,000 contributed the substantial share of the \$1.3 million unrestricted net assets increase attributable to auxiliaries.
 - The remaining increase in unrestricted net assets was due to increased public service revenues. Land and timber sales, camp fees, and regulatory fees increased by \$2 million.

Condensed Summary of Net Assets (thousands of dollars)

	2005	2004	Increase/ (Decrease)	Percent Change
Assets				
Current assets	\$ 196,121	\$ 193,943	\$ 2,178	1.12%
Capital assets, net	434,703	397,683	37,020	9.31%
Other assets	101,773	90,173	11,600	12.86%
Total Assets	<u>732,597</u>	<u>681,799</u>	<u>50,798</u>	7.45%
Liabilities				
Current Liabilities	79,513	71,692	7,821	10.91%
Noncurrent Liabilities	145,418	154,274	(8,856)	(5.74)%
Total Liabilities	<u>224,931</u>	<u>225,966</u>	<u>(1,035)</u>	(0.46)%
Net Assets				
Invested in capital assets, net of debt	294,089	248,604	45,485	18.30%
Restricted - nonexpendable	18,632	16,347	2,285	13.98%
Restricted - expendable	117,212	122,791	(5,579)	(4.54)%
Unrestricted	77,733	68,091	9,642	14.16%
Total Net Assets	<u>\$ 507,666</u>	<u>\$ 455,833</u>	<u>\$ 51,833</u>	11.37%

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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. Activities are reported as either operating or non-operating. 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 nonoperating 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 nonoperating, and the expenses paid by the institution, operating and nonoperating,

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. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues, expenses, gains or losses."

The Condensed Statement 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 on this Statement are as follows:

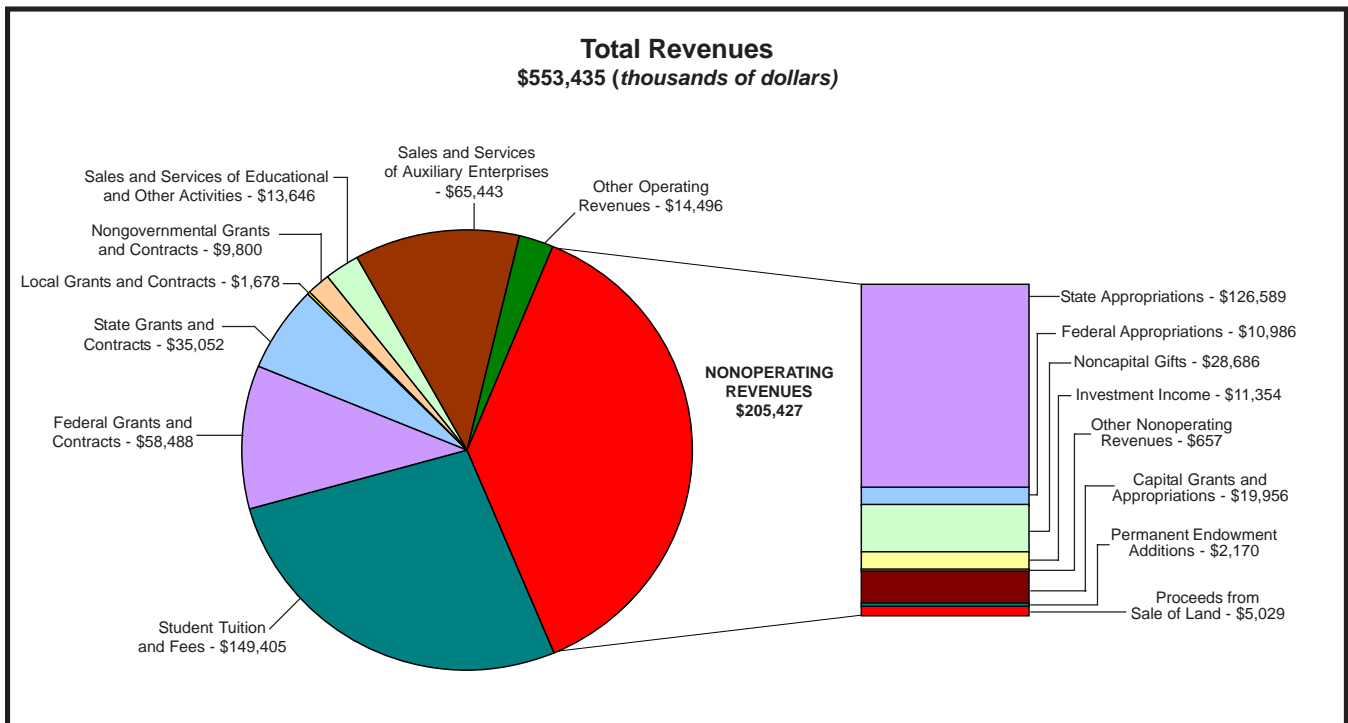
Condensed Summary of Revenues, Expenses and Changes in Net Assets (thousands of dollars)				
	2005	2004	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	\$ 149,405	\$ 131,049	\$ 18,356	14.01%
Sales and services	79,089	75,181	3,908	5.20%
Grants and contracts	105,018	105,767	(749)	(0.71)%
Other operating revenues	14,496	14,263	233	1.63%
Total Operating Revenues	<u>348,008</u>	<u>326,260</u>	<u>21,748</u>	6.67%
State appropriations	126,589	126,020	569	0.45%
Federal appropriations	10,986	10,339	647	6.26%
Gifts	28,686	24,295	4,391	18.07%
Investment income	11,354	11,685	(331)	(2.83)%
Other nonoperating revenues	657	991	(334)	(33.70)%
Capital grants and appropriations	19,956	5,111	14,845	290.45%
Permanent endowment additions	2,170	7,004	(4,834)	(69.02)%
Proceeds from the sale of land	5,029	—	5,029	100.00%
Total Nonoperating Revenues	<u>205,427</u>	<u>185,445</u>	<u>19,982</u>	10.78%
Total Revenues	<u>553,435</u>	<u>511,705</u>	<u>41,730</u>	8.16%
Expenses:				
Compensation and employee benefits	314,270	298,717	15,553	5.21%
Services and supplies	134,961	130,586	4,375	3.35%
Utilities	12,032	12,103	(71)	(0.59)%
Depreciation	24,474	23,323	1,151	4.94%
Scholarships and fellowships	8,115	9,962	(1,847)	(18.54)%
Total Operating Expenses	<u>493,852</u>	<u>474,691</u>	<u>19,161</u>	4.04%
Loss on disposal of capital assets	553	1,205	(652)	(54.11)%
Interest expense	6,743	6,794	(51)	(0.75)%
Refunds to grantors	256	100	156	156.00%
Transfers to state general fund	198	299	(101)	(33.78)%
Total Nonoperating Expenses	<u>7,750</u>	<u>8,398</u>	<u>(648)</u>	(7.72)%
Total Expenses	<u>501,602</u>	<u>483,089</u>	<u>18,513</u>	3.83%
Change in Net Assets	51,833	28,616	23,217	81.13%
Net Assets, Beginning	<u>455,833</u>	<u>427,217</u>	28,616	6.70%
Net Assets, Ending	<u>\$ 507,666</u>	<u>\$ 455,833</u>	<u>\$ 51,833</u>	11.37%

Total Revenues – increase of \$41.7 million

- Operating revenues increased \$21.7 million, based on the following:
 - Student tuition and fees increased \$18.4 million, the result of a Board approved increase of 12.7 percent, and an increase in enrollment of 168 students.
 - Sales and services revenues increased \$3.9 million. Sales and services of auxiliaries were responsible for \$1.7 million of this amount. Housing and Food Services revenues were up \$1.4 million and \$900,000, respectively, due to Board-approved fee increases. Offsetting these increases was a decrease in Athletics revenues of approximately \$800,000, stemming largely from the absence of a bowl game this past fiscal year. The remaining \$2.1 million increase in sales and services revenues was attributable to the University’s public services component. In response to continuing state appropriation cuts, land and timber sales increased by \$858,000, revenues from leadership centers and camps increased \$734,000, and regulatory and local county fees were up approximately \$150,000 each.
 - Total grants and contracts revenues decreased approximately \$750,000. Federal grants and contracts revenues actually decreased \$5 million, a reflection of the “leveling off” of federal research support for higher education in the last year according to the *Chronicle of Higher Education*. This decline was offset by a \$3.6 million increase in state grants and contracts revenues. An additional \$1.6 million in primarily state lottery-funded scholarships was received through the State

Commission on Higher Education. In addition, the State provided an additional \$800,000 in University Center funding, and \$1.2 million in increases from various other State agencies. The \$542,000 increase in local grants and contracts revenues was primarily attributable to solid waste research and consulting studies with Horry and Spartanburg counties.

- The \$233,000 increase in other operating revenues was mainly attributable to growth in application and registration fees.
- Nonoperating revenues increased \$20 million, based on the following:
 - State appropriations increased approximately \$600,000, attributable to a \$1.2 million increase in educational and general appropriations, and a \$600,000 decline in public service appropriations.
 - The \$647,000 increase in federal appropriations was mainly attributable to the differences in federal and state fiscal year ends. Awards for the Smith-Lever, Hatch, McIntire-Stennis, and Animal Health programs remained approximately the same.
 - Increased alumni giving and IPTAY gifts earmarked for the West End Zone expansion of Memorial Stadium contributed significantly to the \$4.4 million increase in gifts.
 - Investment income decreased \$331,000. The expenditure of previously received bond proceeds, and other restricted capital project funds eligible for investment income earnings from the State Treasurer was the primary reason for this decline.
 - Other nonoperating revenues decreased \$334,000. The previous year saw significant asbestos, fire and



vendor reimbursements that did not occur in the fiscal year ending June 30, 2005.

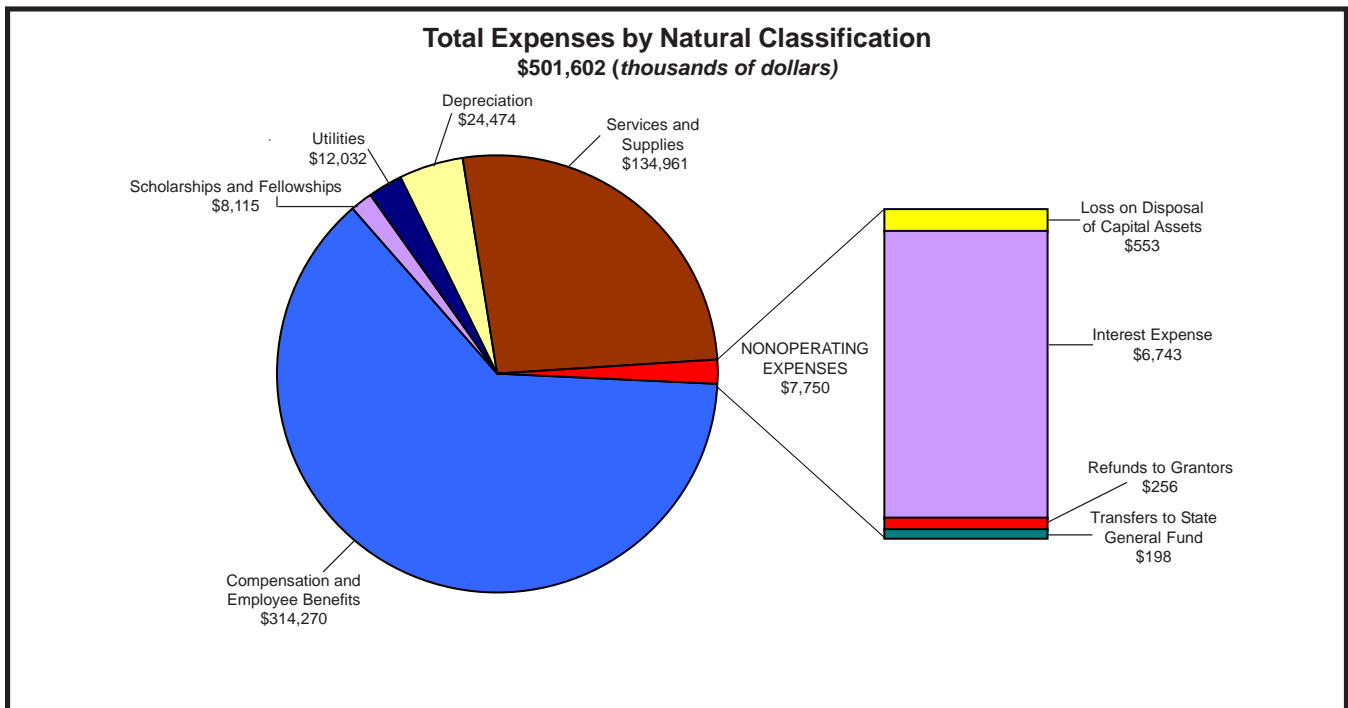
- Capital grants and appropriations increased \$14.8 million. Almost \$10 million in State Economic Development bond proceeds was received for the Clemson University International Center for Automotive Research (Clemson University ICAR) in Greenville, SC. Also, the University received a \$4.6 million gift from the Clemson University Foundation for the West End Zone expansion project at Memorial Stadium.
- Permanent endowment additions decreased approximately \$4.8 million. The University received \$2.2 million in State Lottery Commission-provided funding this past fiscal year, compared to \$7 million received the previous year.
- This past year the University sold 206 acres of Myrtle Beach area property managed by its public service component for approximately \$5 million. The proceeds from this sale were earmarked for scholarships.

Total Expenses – increase of \$18.5 million

- Operating expenses increased \$19.2 million, based on the following:
 - Compensation and employee benefits increased approximately \$15.6 million. A State mandated 3 percent cost-of-living raise largely contributed to this increase, particularly for the \$2.3 million increase in staff salaries. Also contributing, was the hiring of new faculty to replace retirees in the State TERI program, resulting in a \$6.6 million increase in unclassified salaries. Tuition increases

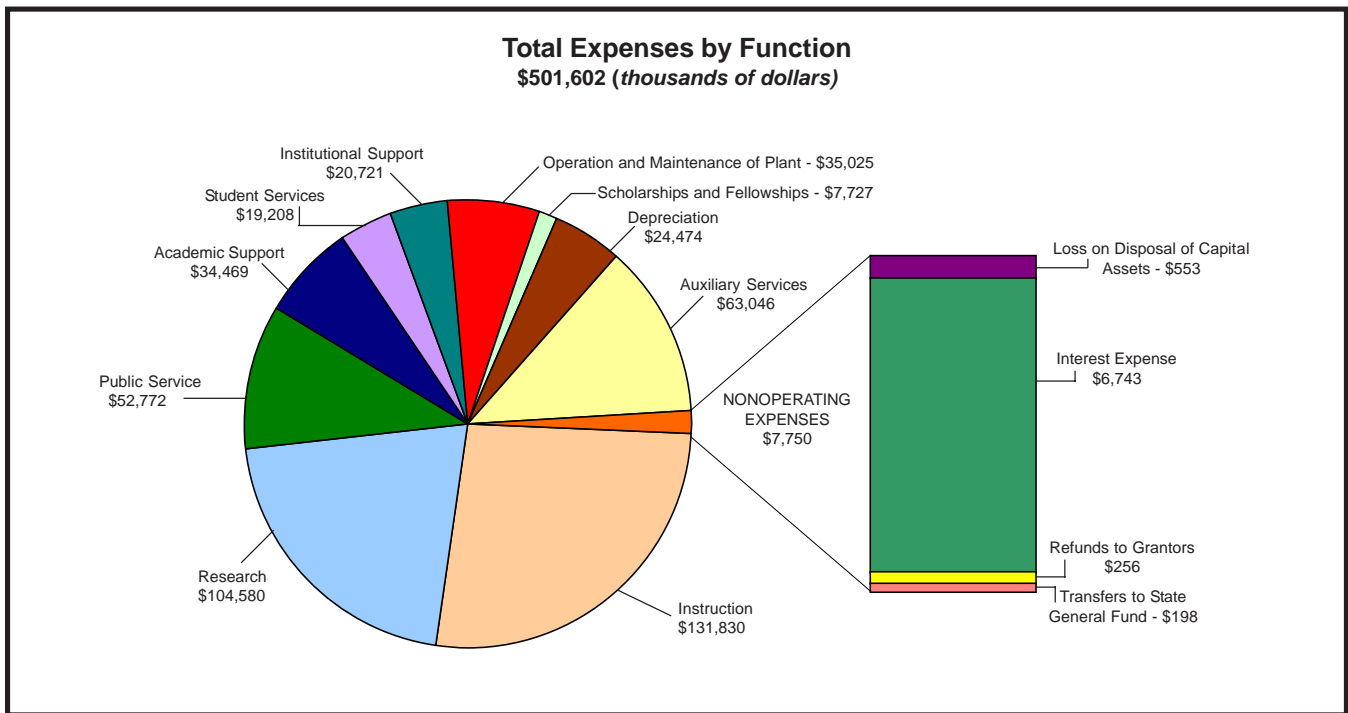
directly resulted in a \$2.9 million increase in the value of graduate assistant waivers. Temporary salaries and wages increased \$1.8 million, as these employees bridged the gap between retiring and newly hired employees. Fringe benefit costs, in accordance with the increases detailed above, increased accordingly by approximately \$2 million.

- Services and supplies expenses increased approximately \$4.4 million. Academic support costs actually increased by \$4.9 million, in part, due to additional Libraries expenses of \$1.3 million, and computer center costs (for servers and to renovate the old bookstore into a computer support center) of approximately \$700,000. In addition, the Office of the Provost incurred additional infrastructure costs of almost \$1.2 million as it upgraded its facilities. The academic support increase was offset by an operation and maintenance of plant decrease of approximately \$2 million. Although costs were up, more of these expenses were capitalized this past year. The \$1.3 million decline in research expenses was mainly attributable to a \$1.7 million decrease in payments to sub recipients as a grant to increase South Carolina commercial shrimp production expired. The instruction expenses increase of \$1.4 million, and the public service increase of \$1 million, were attributable to infrastructure upgrades to “smart classrooms”, and the Research and Education Centers, respectively.
- Utilities expenses decreased by \$71,000 as decreases in telephone expenses offset increases for heat, light and power.



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- Depreciation expenses increased \$1.1 million. Approximately \$24 million in new buildings resulted in an increase of \$584,000 in depreciation. Approximately \$5.5 million in net new additions for equipment and vehicles resulted in an increase of \$426,000 in depreciation, and an additional \$313,000 in capitalized software yielded an additional \$110,000 in depreciation costs.
- Scholarships and fellowships expenses decreased \$1.8 million. Increases in tuition and auxiliary fees resulted in less available to pay-out to students.
- Nonoperating expenses decreased \$648,000, based on the following:
 - Losses on disposals of capital assets decreased \$652,000. Generally, equipment disposed of this past year was older, and more fully depreciated than equipment disposed of in the previous year.
 - Interest expense decreased \$51,000. No new debt was issued this past fiscal year. The interest expense decline is resulted from declining interest (and higher principal) payments on existing debt.
 - Refunds to grantors increased \$156,000. Approximately \$95,000 resulted from principal investigators transferring to other Universities. The return of unspent Kellogg Foundation and State EPSCOR funds accounted for the bulk of the rest of the refunds to grantors.
 - Transfers to the state general fund decreased \$101,000. The end of the Lifelong Improvement in Nutrition of the Community (LINC) public service grant was primarily responsible for the reduction in the facility and administrative recoveries required to be remitted to the State.



Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-

operating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals 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.

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Capital Assets

Capital assets, net of accumulated depreciation, at June 30, 2005 and June 30, 2004 were as follows:

Capital Assets (net of accumulated depreciation)				
	2005	2004	Increase/ (Decrease)	Percent Change
Capital Assets:				
Land	\$ 8,392,893	\$ 7,102,625	\$ 1,290,268	18.17%
Construction in Progress	54,602,080	31,162,652	23,439,428	75.22%
Utilities Systems and Other				
Non-Structural Improvements	14,736,156	14,373,595	362,561	2.52%
Buildings and Improvements	317,667,564	305,764,534	11,903,030	3.89%
Computer Software	220,682	202,467	18,215	9.00%
Equipment	34,214,568	35,005,687	(791,119)	(2.26)%
Vehicles	4,868,473	4,071,003	797,470	19.59%
Total	\$ 434,702,416	\$ 397,682,563	\$ 37,019,853	9.31%

The University completed the \$21 million Advanced Materials Research Laboratory at the Clemson Research Park in Anderson County this past fiscal year. This new 84,000 square foot facility is devoted entirely to graduate and higher level research. In keeping with a formal policy adopted by the Board of Trustees that all new construction and substantial renovations be LEED-certified, this building became the first public building in South Carolina to be awarded this status.

This past year land was purchased from the Clemson University Real Estate Foundation for Clemson University ICAR. Two Clemson University ICAR buildings, the Carroll A. Campbell, Jr. Graduate Engineering Center, and the Information Technology Research Center, contributed significantly to the increase in Construction in Progress as of June 30, 2005. In addition, a \$25 million renovation of the fraternity housing complex was nearing completion at fiscal year end and was due to be placed in service at the beginning of the fall semester.

For additional information about capital assets, see Note 4 in the notes to the financial statements.

Debt Administration

The University's financial statements indicate \$136,201,586 in bonds payable, \$4,276,354 in capital leases payable and \$852,039 in notes payable at June 30, 2005.

The University's bonded indebtedness consisted of: General Obligation Bonds of \$46,605,000, Plant Improvement Bonds of \$4,435,000 and various Revenue Bond issues totaling \$85,161,586. General Obligation Bonds are obligations of the State of South Carolina and are secured as to principal and interest by a pledge of full faith, credit, and taxing power of the State and are paid with tuition and matriculation fees. Plant Improvement Bonds are secured by a pledge of a special student fee designated for the improvement of plant. Revenue bonds issued for student and faculty housing, plant improvement, parking and various auxiliary facilities are paid with pledged net revenues, special imposed student fees, and stadium seat taxes.

The \$4,276,354 in capital leases is comprised of four leases for land and real estate. Two of these leases are with the Clemson University Research Foundation, a component unit.

The \$852,039 in notes payable is comprised of a note from the South Carolina State Energy Office to upgrade campus lighting, and a construction loan with the Clemson University Foundation, a component unit.

For additional information on Debt Administration, see Notes 6 and 7 in the notes to the financial statements.

Economic Outlook

As a State supported higher education institution, the University's economic position is closely tied to the State of South Carolina. The State ended fiscal year 2005 with a \$300 million surplus. Collections for individual income taxes were up 12 percent. Collections for corporate income taxes increased almost 25 percent. Retail sales tax collections increased more than 5 percent. This surplus was used to fully fund the State's "Rainy Day Fund" for the first time since 1997, and to fully fund the Capital Reserve Fund for the first time since 2000.

Shortly after fiscal year end, Standard & Poor's notified the State that it was downgrading its AAA credit rating. The State's comparatively high unemployment rate and its traditional dependence on the textile industry were cited as the reasons for the downgrade.

State capital appropriations increased almost \$10 million in fiscal year 2005, attributable to State Economic Development Bond proceeds for the Clemson University ICAR, in Greenville, SC. This commitment, along with similar infrastructure investments made to the City and County of Greenville, indicate the State's desire to move towards a diversified, knowledge-based economy.

State Lottery proceeds were largely responsible for \$2.2 million in endowed professorships, and an increase of \$1.6 million for state-funded scholarships. However, state appropriations, used to fund operations, only increased \$647,000, well below the amount needed to fund State mandated pay increases and other costs. State appropriation

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revenues comprised approximately 23 percent of total University revenues.

To offset rising costs and support continued investment in academic quality, the 2006 budget approved by the Board of Trustees reflected a 12.4 percent tuition increase. At the same time, the Board stressed its commitment to find other revenue sources through the University's "Discovery" process.

The University finished the year better off than the previous year. Applications for the Fall 2005 semester were at an all-time high. *U.S. News and World Report*, the *Princeton Review*, and other publications continue to recognize the University's commitment to academic quality.

CLEMSON UNIVERSITY STATEMENT OF NET ASSETS

June 30, 2005

	<u>Clemson University</u>	<u>Clemson University Research Foundation</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 126,768,920	\$ 5,169,416
Restricted Assets - Current:		
Cash and cash equivalents	35,106,569	1,912
Accounts receivable (Net of provision for doubtful accounts of \$84,916)	5,086,765	1,135,089
Grants and contracts receivable	22,694,651	911,110
Contributions receivable, net	706,735	—
Interest and income receivable	1,487,621	—
Student loans receivable	7,068	—
Inventories	682,585	—
Prepaid expenses	3,535,731	14,400
Investment in direct financing lease	—	411,101
Other	43,934	—
Total current assets	<u>196,120,579</u>	<u>7,643,028</u>
Noncurrent Assets:		
Notes receivable	60,548,399	—
Contributions receivable, net	1,517,362	—
Investments	2,604,000	—
Restricted Assets - Noncurrent:		
Cash and cash equivalents	28,674,661	—
Student loans receivable	8,011,469	—
Investment in direct financing lease	—	506,060
Other	417,867	3,689
Capital assets, not being depreciated	62,994,973	193,882
Capital assets, net of accumulated depreciation	371,707,443	1,608,635
Total noncurrent assets	<u>536,476,174</u>	<u>2,312,266</u>
Total assets	<u>\$ 732,596,753</u>	<u>\$ 9,955,294</u>
LIABILITIES		
Current Liabilities:		
Accounts and retainages payable	\$ 20,161,852	\$ 2,060,726
Accrued payroll and related liabilities	17,019,146	3,754
Accrued compensated absences and related liabilities	12,196,020	—
Accrued interest payable	910,544	1,748
Deferred revenues	18,760,571	619,216
Bonds payable	8,260,122	415,686
Capital leases payable	1,146,895	—
Notes payable	47,250	64,182
Deposits	464,832	—
Funds held for others	545,747	1,650
Total current liabilities	<u>79,512,979</u>	<u>3,166,962</u>
Noncurrent Liabilities:		
Accrued compensated absences and related liabilities	5,944,980	—
Funds held for others	7,596,862	—
Bonds payable	127,941,464	181,345
Capital leases payable	3,129,459	—
Notes payable	804,789	687,568
Total noncurrent liabilities	<u>145,417,554</u>	<u>868,913</u>
Total liabilities	<u>\$ 224,930,533</u>	<u>\$ 4,035,875</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 294,089,022	\$ 1,045,903
Restricted for Nonexpendable:		
Scholarships and fellowships	18,632,285	—
Restricted for Expendable:		
Scholarships and fellowships	88,365,072	—
Research	1,853,021	3,444,522
Instructional department use	10,173,107	—
Loans	1,689,000	—
Capital projects	12,267,777	—
Debt service	2,864,007	—
Unrestricted	77,732,929	1,428,994
Total net assets	<u>\$ 507,666,220</u>	<u>\$ 5,919,419</u>

See accompanying notes to basic financial statements.

CLEMSON UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended June 30, 2005

	<u>Clemson University</u>	<u>Clemson University Research Foundation</u>
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$37,833,252)	\$ 149,404,669	\$ —
Federal grants and contracts	58,488,138	4,521,948
State grants and contracts	35,051,989	—
Local grants and contracts	1,678,022	—
Nongovernmental grants and contracts	9,799,730	2,106,756
Sales and services of educational and other activities	13,646,432	—
Sales and services of auxiliary enterprises - pledged for revenue bonds (net of scholarship allowances of \$8,840,572)	57,686,089	—
Sales and services of auxiliary enterprises - not pledged	7,756,649	—
Other operating revenues	14,495,921	3,827,998
Total operating revenues	<u>348,007,639</u>	<u>10,456,702</u>
EXPENSES		
Operating Expenses:		
Compensation and employee benefits	314,269,860	183,003
Services and supplies	134,961,200	10,898,233
Utilities	12,032,427	89,306
Depreciation	24,473,694	181,877
Scholarships and fellowships	8,114,859	—
Total operating expenses	<u>493,852,040</u>	<u>11,352,419</u>
Operating loss	<u>(145,844,401)</u>	<u>(895,717)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	126,588,594	—
Federal appropriations	10,986,171	—
Gifts	28,686,430	—
Interest income	5,102,078	190,464
Endowment income	6,251,773	—
Interest on capital asset related debt	(6,743,028)	(59,620)
Other nonoperating revenues	656,716	—
Gain/loss on disposal of capital assets	4,475,645	46,926
Refunds to grantors	(255,646)	—
Net nonoperating revenues	<u>175,748,733</u>	<u>177,770</u>
Income before other revenues, expenses, gains or losses	29,904,332	(717,947)
State capital appropriations	12,468,938	—
Capital grants and gifts	7,487,422	—
Additions to permanent endowments	2,169,530	—
Transfers to/from other state funds	(197,174)	—
Increase in net assets	<u>51,833,048</u>	<u>(717,947)</u>
NET ASSETS		
Net assets, Beginning of Year	455,833,172	6,637,366
Net assets, End of Year	<u>\$ 507,666,220</u>	<u>\$ 5,919,419</u>

See accompanying notes to basic financial statements.

CLEMSON UNIVERSITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments from customers	\$ 206,148,870
Grants and contracts	104,475,183
Payments to suppliers	(157,380,755)
Payments to employees	(244,701,729)
Payments for benefits	(55,844,332)
Payments to students	(28,013,056)
Inflows from Stafford loans	36,096,397
Outflows from Stafford loans	(5,053,496)
Loans to students	(86,293)
Collection of loans	1,583,100
Net cash used by operating activities	<u>(142,776,111)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	126,588,594
Federal appropriations	10,986,171
Gifts	56,083,811
Net cash flow provided by noncapital financing activities	<u>193,658,576</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	5,028,242
State capital appropriations	12,468,938
Capital grants and gifts received	5,679,330
Purchases of capital assets	(56,472,887)
Principal paid on capital debt and lease	(8,464,691)
Interest and fees	(6,851,535)
Net cash used by capital activities	<u>(48,612,603)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	7,312,137
Proceeds from stock sales	763,711
Net cash flows provided by investing activities	<u>8,075,848</u>
Net change in cash	10,345,710
Cash beginning of year	180,204,440
Cash end of year	<u>\$ 190,550,150</u>
Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	\$ (145,844,401)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	24,473,694
Change in asset and liabilities:	
Receivables net	(21,534,484)
Grants and contracts receivable	(1,000,795)
Student loans receivable	(659,028)
Prepaid expenses	(1,174,436)
Inventories	94,083
Other	43,934
Accounts and retainages payable	(464,397)
Accrued payroll and related liabilities	3,192,386
Accrued compensated absences and related liabilities	857,000
Deferred revenue	(303,334)
Deposits held for others	(456,333)
Net cash used by operating activities	<u>\$ (142,776,111)</u>
NON-CASH TRANSACTIONS	
Increase in fair value of investments	\$ 3,173,150
Capital assets acquired through gifts	1,299,114
RECONCILIATION OF CASH AND CASH EQUIVALENT BALANCES	
Current assets:	
Cash and cash equivalents	126,768,920
Restricted cash and cash equivalents	35,106,569
Noncurrent assets:	28,674,661
Total cash and cash equivalent balances	<u>\$ 190,550,150</u>

See accompanying notes to basic financial statements.

CLEMSON UNIVERSITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS	
Cash and cash equivalents	\$ 12,841,163
Contributions receivable, net	27,479,281
Other receivables	185,448
Due from related organizations	2,133,343
Investments	218,796,755
Investments held for Clemson University	60,548,399
Investments held in trust for affiliate	1,080,079
Cash surrender value of life insurance	85,777
Land held for resale	9,386,018
Land, buildings and equipment, net	2,251,539
Total assets	\$ 334,787,802
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and accrued liabilities	\$ 407,252
Due to related organizations	142,133
Accrued liability to Clemson University due to net investment appreciation	12,969,467
Note payable to Clemson University	47,578,932
Deferred royalty revenue	—
Actuarial liability of annuities payable	7,631,240
Trust funds administered for affiliate	2,251,539
Total liabilities	70,980,563
Net Assets	
Unrestricted	20,779,715
Temporarily restricted	82,433,254
Permanently restricted	160,594,270
Total net assets	263,807,239
Total liabilities and net assets	\$ 334,787,802

See accompanying notes to basic financial statements.

CLEMSON UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2005

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS AND OTHER SUPPORT:				
Gifts and bequests	\$ 2,089,260	\$ 9,430,075	\$ 10,996,279	\$ 22,515,614
Income on investments	868,979	2,559,722	17,136	3,445,837
Net realized and unrealized gains on investments	1,096,954	16,248,975	254,032	17,599,961
Program income	686,771	331,990	1,189	1,019,950
Other income	94,733	226,667	39,814	361,214
Change in value of split-interest agreements	31,645	10,307	728,462	770,414
Total revenues and gains	4,868,342	28,807,736	12,036,912	45,712,990
Net assets released from restrictions	15,143,700	(11,865,338)	(3,278,362)	—
Total revenues, gains and other support	20,012,042	16,942,398	8,758,550	45,712,990
EXPENSES:				
Program expenses - board	1,288,306	—	—	1,288,306
Program expenses - endowments	5,050,625	—	—	5,050,625
Program expenses - operations	4,407,282	—	—	4,407,282
Program expenses - capital projects	4,612,124	—	—	4,612,124
Total program expenses	15,358,337	—	—	15,358,337
General administrative	776,163	—	—	776,163
Fundraising	765,385	—	—	765,385
Total expenses	16,899,885	—	—	16,899,885
Change in net assets	3,112,157	16,942,398	8,758,550	28,813,105
Net assets at beginning of year	17,667,558	65,490,856	151,835,720	234,994,134
Net assets at end of year	\$ 20,779,715	\$ 82,433,254	\$ 160,594,270	\$ 263,807,239

See accompanying notes to basic financial statements.

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

Nature of Organization

Clemson University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-119-20 of the Code of Laws of South Carolina in accordance with the will of Thomas Green Clemson and the Act of Acceptance of the General Assembly of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints some of their board members and budgets a significant portion of their funds.

The University is governed by a board of thirteen members, including six elected by the State Legislature and seven self-perpetuating life members. Accordingly, as such it administers, has jurisdiction over, and is responsible for the management of the University.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The University follows GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations. Based on these criteria, the financial statements include the accounts of the University, as the primary

government, and the accounts of the following two entities as discretely presented component units.

The Clemson University Foundation (CUF) is a separately chartered corporation organized exclusively to promote the development and welfare of Clemson University in its educational and scientific purposes. CUF's activities are governed by its Board of Directors. CUF is considered a component unit because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. CUF is considered a nongovernmental component unit since it does not meet the definition of a governmental entity. None of the following characteristics of a governmental entity apply to CUF: a) Organization is a public corporation; b) Organization is a body corporate and politic; c) A controlling majority of the members of the organization are elected or appointed by governmental officials; d) There is potential for unilateral dissolution by a government with the net assets reverting to the government; and e) The organization has the power to enact and enforce a tax levy. Because CUF is deemed not to be a governmental entity and uses a different reporting model, its balances and transactions are reported on separate financial statements. Copies of the separately issued financial statements of the Clemson University Foundation can be obtained by sending a request to the following address: Clemson University Foundation, 110 Daniel Drive, Clemson, SC, 29634.

The Clemson University Research Foundation (CURF) is a separately chartered corporation established to solicit research grants and contracts, then contract the University to perform the research. CURF's activities are governed by its Board of Directors. CURF is considered a component unit, and is discretely presented in the financial statements, because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. Copies of the separately issued financial statements of the Clemson University Research Foundation can be obtained by sending a request to the following address: Clemson University Research Foundation, P.O. Box 946, Clemson, SC 29633.

Financial Statement Presentation

The financial statements of the University are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Government*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

NOTES TO FINANCIAL STATEMENTS

Measurement Focus and Basis of Accounting

For financial reporting purposes, the University, along with the Clemson University Research Foundation, its discretely presented component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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.

The Clemson University Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Non-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 CUF's financial information in the University's financial reporting entity for these differences.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, the State of South Carolina has elected to apply only those Financial Accounting Standards Board ("FASB") pronouncements issued on or before November, 30, 1989, not in conflict with GASB standards.

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

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts, and certain funds invested with Wachovia and Prudential Securities.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general

deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. It records and reports its special deposit account at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an internal maturity of three months or less at the time of acquisition. For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered to be cash equivalents.

Investments

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

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of South Carolina. Accounts receivable are recorded net of estimated uncollectible amounts.

Grants and contracts receivable include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Also included are amounts due for Federal loan and scholarships programs and reimbursements for Federal land-grant expenditures.

Contributions receivable are accounted for at their estimated net realizable value. The estimated net realizable value comprehends the present value of long-term pledges and reductions for any allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified University programs and initiatives.

Amounts due from the Clemson University Foundation

NOTES TO FINANCIAL STATEMENTS

are pursuant to a Memorandum of Understanding between the University and that entity prompted by a 1999 change in the South Carolina Code of Laws that allowed state-supported universities to lend endowment balances to separately chartered not-for-profit entities whose existence is primarily providing financial assistance and other support to the institution and its educational programs. For additional information regarding this loan, see Note 3.

Student loans receivable consists of amounts due from the Federal Perkins Loan Program, and from other loans administered by the University.

Interest and income receivable consists of amounts due from the State Treasurer relating to holdings in the State's internal cash management pool and cash invested in various short-term investments by that agency.

Inventories

Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market. Items accounted for as University inventories using the moving weighted average method include: maintenance supplies, housing supplies, janitorial and auto supplies, printing and graphic supplies, office supplies, telecommunications supplies and medical supplies.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, and cash and investments representing permanent endowments are classified as noncurrent assets in the statement of net assets.

Capital Assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings and improvements and land improvements and 6 to 20 years for machinery, equipment, and vehicles. Internally developed software is depreciated using the straight-line method over a three year period. 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

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.

Deposits

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, other deposits, and student fee refunds. 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.

Funds Held for Others

Current balances in Funds Held for Others result from the University acting as an agent, or fiduciary, for another entity. These include amounts due to other universities in the National Textile Consortium, and amounts due for various study abroad programs. Noncurrent balances represent the Federal liability for the Perkins Loan Program.

Prepaid Expenses

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 prepaid insurance, prepaid postage, prepaid airline tickets, and advance payments for maintenance and service agreements.

Internal Service and Auxiliary Enterprise Activities

Both revenue and expenses relating to internal service (including information technology costs) and auxiliary enterprise activities including print shop, office equipment, maintenance, transportation services, telecommunications, institutional computing, bookstores, and cafeterias have been eliminated.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's 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 State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave

NOTES TO FINANCIAL STATEMENTS

for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments net change in the liability is recorded in the current year in the applicable functional expenditure categories.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

The University's net assets are classified as follows:

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

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

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

Unrestricted Net Assets: Unrestricted net assets represent resources derived from student tuition and fees, state 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources and then towards restricted resources.

Income Taxes

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

The Internal Revenue Service has determined that both the Clemson University Foundation and the Clemson University Research Foundation qualify as exempt organizations under Internal Revenue Code Section 501(c)(3) and as such are exempt from taxation on related income.

Classification of Revenues and Expenses

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

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional loans. Operating expenses include all expense transactions incurred other than those related to investing, capital or noncapital financing activities.

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income. Nonoperating expenses include interest paid on capital asset related debt, losses on the disposal of capital assets, and refunds to grantors.

Educational Activities Revenue

Revenues from sales and services of educational 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 various activities related to the University's agricultural public service mission, including pesticide registration and licensing fees, livestock, poultry and health test fees, extension service fees, forest product sales, and youth camp fees. These unrestricted revenues are collectively labeled "Sales and Services of Educational Departments".

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and

NOTES TO FINANCIAL STATEMENTS

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.

Deferred Charges

Deferred charges connected with bond issuance costs are reported as an asset titled "Other" and are amortized over the lives of the bond issues on a straight-line basis.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the

sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded and a reserve fund to liquidate the liability is established.

NOTE 2.

CASH AND CASH EQUIVALENTS, DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers.

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

Reconciliation of Deposits and Investments			
<u>Statement of Net Assets</u>		<u>Footnotes</u>	
Cash and cash equivalents	\$ 190,550,150	Cash on hand	\$ 228,233
Investments	2,604,000	Deposits held by State Treasurer	188,805,845
		Other deposits	1,516,072
		Investments held by State Treasurer	154,439
		Other investments	2,449,561
Total	\$ 193,154,150	Total	\$ 193,154,150

Deposits Held by State Treasurer

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

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to 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 of the amount recorded by the University, \$1,467,194 of the \$188,805,845 identified above as "Deposits held by State Treasurer" is attributable to unrealized gains.

Other Deposits

The University's other deposits at year-end were entirely

covered by federal depository insurance or collateral held by custodial banks.

Investments Held by State Treasurer

Investments held by State Treasurer comprise investments held for the University and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities. Investments consist of Agricultural College stock with a carrying amount of \$95,900 and Perpetual stock with a carrying amount of \$58,539 held by the State Treasurer as Trustee in Perpetuity on which they are required to pay the University 6 percent per year. Since there is no readily determinable fair value for these investments, they have been assigned a fair value equal to their historical cost value.

NOTES TO FINANCIAL STATEMENTS

Other Investments

The University also has investments in mutual funds as authorized by a single donor. The mutual funds with a fair value of \$2,449,561, are held, and invested by, Wachovia, Inc., as trustee in accordance with the endowment agreement specified by the donor.

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

“Other Investments” are stated at fair value and include unrealized appreciation of \$1,192,600. Purchases and sales are accounted for on the trade date. Both unrealized and realized gains and losses on investments have been recorded. Earnings are recorded on an accrual basis.

NOTE 3. RECEIVABLES

University receivables reported in the Statement of Net Assets as of June 30, 2005, were as follows:

University Receivables	Current	Noncurrent	Total
Accounts receivable	\$ 5,086,765	\$ —	\$ 5,086,765
Grants and contracts receivable	22,694,651	—	22,694,651
Contributions receivable	706,735	1,517,362	2,224,097
Notes receivable	—	60,548,399	60,548,399
Interest and income receivable	1,487,621	—	1,487,621
Student loans receivable	7,068	8,011,469	8,018,537
Total receivables	\$ 29,982,840	\$ 70,077,230	\$ 100,060,070

Accounts receivable are reported net of allowances for doubtful accounts of \$84,916 based on credit losses experienced in prior years and evaluation of current portfolios. Student payment allowances of \$65,000, parking services allowances of \$14,916, and telecommunications allowances of \$5,000 comprise this amount. Contributions receivable are reported net of allowances for current uncollectible pledges of \$118,380 and allowances for noncurrent uncollectible pledges of \$371,072.

Accounts receivable for the year ended June 30, 2005, were comprised of the following balances:

Accounts Receivable	
Computer services	\$ 1,628,524
Students/Scholarships	1,005,493
Auxiliaries	666,004
Professional development/conferences	435,171
Fees	423,006
Camps	309,831
Insurance reimbursement	304,691
Educational programs	214,109
Municipal services	62,765
Other	37,171
Total accounts receivable	\$ 5,086,765

Grants and contracts receivable are comprised of amounts due for sponsored research projects, federal land-grant appropriations, and federal scholarship programs. Grants and contract receivable for the year ended June 30, 2005, were comprised of the following balances:

Grants and Contracts Receivable					
	Federal	State	Local	Nongovernmental	Total
Sponsored research	\$ 15,827,546	\$ 2,459,711	\$ 212,614	\$ 1,880,170	\$ 20,380,041
Land-grant appropriations	1,945,742	—	—	—	1,945,742
Scholarship programs	368,868	—	—	—	368,868
Total grants and contracts receivable	\$ 18,142,156	\$ 2,459,711	\$ 212,614	\$ 1,880,170	\$ 22,694,651

NOTES TO FINANCIAL STATEMENTS

Contributions receivable are comprised of pledges for gifts to support specifically identified University programs and to provide athletic scholarships. Contributions receivable are accounted for at their estimated net realizable value, or the present value of long-term pledges net of reductions for allowances for uncollectible pledges. Pledges vary from one to ten years.

Contributions Receivable			
	Current	Noncurrent	Total
University programs	\$ 95,787	\$ 112,447	\$ 208,234
Athletic scholarships	610,948	1,404,915	2,015,863
Total contributions receivables	\$ 706,735	\$ 1,517,362	\$ 2,224,097

Part II, Section 9 of the 1998-99 State Appropriations Act amended the South Carolina Code of Laws by adding Section 59-101-410. This amendment allowed the governing boards of state-supported universities to lend their endowment and auxiliary enterprise funds on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose mission is primarily providing financial assistance and other support to the institution and its educational program.

Accordingly, as of June 30, 2005, the University had notes receivable from the Clemson University Foundation, a related party, totaling \$60,548,399. This amount includes the original loan of \$35,358,188, additional amounts totaling \$12,220,744 loaned since the fiscal year 1999 original loan, plus related income and appreciation. Funds loaned to the Clemson University Foundation will be paid back to the University with interest at a rate equal to that which is necessary to produce a sum which is equal to the total return (consisting of appreciation and income), provided, however, such rate will not be less than zero. The Memorandum of Understanding between Clemson University and the Clemson University Foundation is for a ten

year period. It is reviewed annually by both parties and may be extended automatically for an additional twelve month period unless either party provides written notice of objection to the extension, in which case, the Memorandum of Understanding will not automatically extend for an additional twelve month period. The above notwithstanding, either party may terminate the Memorandum of Understanding at any time without cause upon one hundred eighty days written notice to the other party.

With minor exceptions, losses for loans to students are not estimated or recorded in allowances for uncollectible accounts. At the time a loan is considered uncollectible it is charged to principal. Any account receivable written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed material.

Interest and income receivable consists of amounts due from the State Treasurer relating to holdings in the State's internal cash management pool and cash invested in various short-term investments by that agency.

NOTES TO FINANCIAL STATEMENTS

**NOTE 4.
CAPITAL ASSETS**

Capital Asset activity for the year ended June 30, 2005, is summarized as follows:

Capital Assets				
	Beginning Balance June 30, 2004	Increases	Decreases	Ending Balance June 30, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 7,102,625	\$ 1,316,206	\$ 25,938	\$ 8,392,893
*Construction in Progress	31,162,652	44,819,885	21,380,457	54,602,080
Total capital assets not being depreciated:	<u>38,265,277</u>	<u>46,136,091</u>	<u>21,406,395</u>	<u>62,994,973</u>
Other capital assets:				
Utilities Systems and Other Non-Structural Improvements	24,318,043	1,417,026	—	25,735,069
Buildings and improvements	476,477,449	24,179,134	—	500,656,583
Computer Software	607,400	331,022	—	938,422
Equipment	121,767,359	10,367,365	5,223,138	126,911,586
Vehicles	12,891,491	995,973	762,146	13,125,318
Total other capital assets at historical cost:	<u>636,061,742</u>	<u>37,290,520</u>	<u>5,985,284</u>	<u>667,366,978</u>
Less accumulated depreciation for:				
Utilities Systems and Other Non-Structural Improvements	9,944,448	1,054,465	—	10,998,913
Buildings and improvements	170,712,915	12,276,104	—	182,989,019
Computer software	404,933	312,807	—	717,740
Equipment	86,761,672	10,664,322	4,728,976	92,697,018
Vehicles	8,820,488	165,996	729,639	8,256,845
Total accumulated depreciation:	<u>276,644,456</u>	<u>24,473,694</u>	<u>5,458,615</u>	<u>295,659,535</u>
Other capital assets, net	359,417,286	12,816,826	526,669	371,707,443
Capital assets, net	<u>\$ 397,682,563</u>	<u>\$ 58,952,917</u>	<u>\$ 21,933,064</u>	<u>\$ 434,702,416</u>

* Includes current fiscal year capitalized interest of \$1,309,737

**NOTE 5.
DEFERRED REVENUES**

Deferred revenues consist primarily of athletic ticket sales and related fees and unearned student revenues for the second summer session and fall semester. These monies were collected in advance and were not earned at June 30, 2005.

Athletic sales and related event receipts include: advance sales of football tickets, executive box rental fees, and program advertising fees. Unearned student revenues consist mainly of student tuition and fees, room and board, and other fees related to the second summer session. Also included are admission fees for the fall semester.

Public Service Program receipts result from letter-of-credit draw-downs of federal appropriations for Hatch and Smith Lever funds for the University's agricultural research and extension programs. Fees collected in advance for municipal services, professional development and continuing education courses, contract credit courses, and various departmental

accounts comprise the remaining balance of deferred revenues.

A summary listing of deferred revenue follows:

Deferred Revenues	
Athletic event receipts - fall semester	\$ 10,336,169
Sponsored research programs	3,895,612
Academic and other fees - second summer semester	3,195,018
Other auxiliary fees - second summer session	699,304
Admission fees - fall semester	273,300
Public Service programs	131,007
Professional development fees	57,921
Educational Programs	66,376
Other	105,864
Total deferred revenues	<u>\$ 18,760,571</u>

NOTES TO FINANCIAL STATEMENTS

**NOTE 6.
BONDS PAYABLE AND NOTES PAYABLE**

Bonds Payable

At June 30, 2005, bonds payable consisted of the following:

Bonds Payable				
	Interest Rate	Maturity Dates	June 30, 2005 Balance	Debt Retired in Fiscal Year 2005
General Obligation Bonds				
Bonds dated 4/01/95 (Series 1995A)	5.125-5.25%	6/1/2010	\$ 1,330,000	\$ 225,000
Bonds dated 6/01/97 (Series 1997B)	4.75-4.80%	6/1/2010	4,585,000	570,000
Bonds dated 7/01/02 (Series 2002B)	4.00-4.375%	6/1/2017	20,525,000	535,000
Bonds dated 3/01/03 (Series 2003B)	2.50-4.50%	6/1/2017	10,560,000	730,000
Bonds dated 12/01/03 (Series 2003F)	2.50-4.25%	6/1/2018	9,605,000	795,000
			<u>46,605,000</u>	
Plant Improvement Refunding Bonds				
Bonds dated 3/01/98 (Series 1998)	4.20-4.50%	5/1/2011	4,435,000	635,000
			<u>4,435,000</u>	
Revenue Bonds				
Bonds dated 1/01/98 (Series 1998A)	4.625-4.75%	5/1/2012	14,135,000	1,745,000
Bonds dated 5/01/00 (Series 2000)	5.50-6.25%	5/1/2015	19,180,000	860,000
Bonds dated 8/01/03 (Series 2003)	4.00-5.00%	5/1/2018	27,290,000	—
			<u>60,605,000</u>	
Athletic Facilities Revenue Bonds				
Bonds dated 6/01/01 (Series 2001)	4.00-4.75%	5/1/2016	16,840,000	1,095,000
Bonds dated 6/01/03 (Series 2003)	3.00-5.00%	5/1/2023	7,000,000	—
			<u>23,840,000</u>	
Subtotal Bonds Payable			135,485,000	7,190,000
Plus Unamortized Bond Premium			716,586	55,122
Total Bonds Payable			<u>\$ 136,201,586</u>	<u>\$ 7,245,122</u>

Bonds issued by the University include certain restrictive covenants. General Obligation Bonds of the State are backed by the full faith, credit and taxing power of the State. Tuition and matriculation fees paid to the University are pledged for the payment of principal and interest on these bonds. Plant Improvement Refunding Bonds are limited obligations of the University payable solely from, and secured by a pledge of a special student fee for plant improvements. Auxiliary Revenue Bonds are payable solely from and secured by a pledge of revenues of the University's housing facilities, bookstores, dining services, parking and vending, and from additional funds from the academic "University" fee imposed by the Board of Trustees. Athletic Facilities Revenue Bonds are payable solely from the net revenues of the University's Athletic Department and the gross receipts from the imposition of any admissions fee and any special student fee.

The University purchased a bond insurance policy payable to the bond trustee for the Plant Improvement Refunding Bonds, Series 1998; the Revenue Bonds, Series 1998A, Series 2000 and Series 2003; and the Athletic Facilities Revenue Bonds, Series 2001 and 2003. In addition, a surety bond was purchased for the Athletic Facilities Revenue Bonds, Series 2001 and

2003. The insurance guarantees payment of principal and interest until all debt has been retired.

Tuition fees for the fiscal year ended June 30, 2004 were \$6,881,257 which results in a legal annual debt service limit at June 30, 2005 of \$6,193,132. This amount is equal to 90% of tuition fees collected for the prior fiscal year.

The series 1995A General Obligation Bonds maturing on and after June 1, 2006, are subject to redemption in whole or if in part on June 1, 2005, and all subsequent payment dates in inverse chronological order of maturity, at the option of the State of South Carolina, at the following redemption prices: June 1, 2005 and December 1, 2005 at 102 percent; June 1, 2006 and December 1, 2006 at 101 percent; June 1 2007 and thereafter at par.

The series 1997B General Obligation Bonds maturing on and after June 1, 2008, are subject to redemption at the option of the State, in whole or in part, but if in part, in inverse chronological order of maturity, on and after June 1, 2007, and on all subsequent bond payment dates at the following redemption prices: June 1, 2007 and December 1, 2007 at 102 percent; June 1, 2008 and December 1, 2008 at 101 percent; June 1, 2009 and thereafter at par.

NOTES TO FINANCIAL STATEMENTS

The series 1998A Auxiliary Revenue Bonds maturing on or after May 1, 2008 are subject to redemption at the option of the University on and after May 1, 2007 in whole or in part at any time upon 30 days notice, at a declining premium. After May 1, 2007, the Auxiliary Revenue Bonds can be redeemed at 101% through April 30, 2008 and from May 1, 2008 through April 30, 2009 at 100.5% of par. After April 30, 2009 they can be redeemed at par.

The Series 1998 Plant Improvement Refunding Bonds are not subject to redemption prior to maturity.

The Series 2000 Auxiliary Revenue Bonds maturing prior to May 1, 2010 shall not be subject to redemption; however, they shall be subject to redemption prior to maturity on or after May 1, 2010 at the option of the University on and after May 1, 2009, in whole or in part at any time, and if in part in those maturities designated by the University and by lot within a maturity, upon 30 days notice at the principal amount thereof and the interest accrued on such principal amount to the date fixed for redemption, plus the following redemption premium: May 1, 2009 through April 30, 2010 at 101 percent and May 1, 2010 and thereafter at 100 percent.

The Series 2001 Athletic Facilities Revenue Bonds maturing prior to May 1, 2012 shall not be subject to redemption; however, they shall be subject to redemption prior to maturity on or after May 1, 2011 at the option of the University on or after May 1, 2012, in whole or in part for the principal amount thereof and the interest accrued on such principal amount to the date fixed for redemption, plus the following redemption premium: May 1, 2011 through April 30, 2012 at 101 percent and May 1, 2012 and thereafter at 100 percent.

The Series 2002B General Obligation Bonds maturing on and after June 1, 2013, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after June 1, 2012, at the redemption prices expressed as a percentage of the principal amount to be redeemed at the following redemption prices: June 1, 2012

through May 31, 2013 at 101 percent and June 1, 2013 and thereafter at 100 percent.

The Series 2003B General Obligation Bonds maturing on and after June 1, 2013, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after June 1, 2012, at the redemption prices expressed as a percentage of the principal amount to be redeemed at the following redemption prices: June 1, 2012 through May 31, 2013 at 101 percent and June 1, 2013 and thereafter at 100 percent.

The Series 2003 Athletic Facilities Revenue Bonds maturing prior to May 1, 2014 shall not be subject to redemption; however, they shall be subject to redemption prior to maturity on or after May 1, 2014 at the option of the Board of Trustees on or after May 1, 2013, in whole or in part for the principal amount thereof and the interest accrued on such principal amount to the date fixed for redemption, plus the following redemption premium: May 1, 2013 through April 30, 2014 at 101 percent and May 1, 2014 and thereafter at 100 percent.

The Series 2003F General Obligation Bonds maturing on and after June 1, 2014, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after June 1, 2013, at the redemption price of par plus accrued interest to the date fixed for redemption.

The Series 2003 Revenue Bonds maturing prior to May 1, 2014 shall not be subject to redemption; however, they shall be subject to redemption prior to maturity on or after May 1, 2014 at the option of the Board of Trustees on or after May 1, 2013, in whole or in part for the principal amount thereof and the interest accrued on such principal amount to the date fixed for redemption, plus the following redemption premium: May 1, 2013 through April 30, 2014 at 101 percent and May 1, 2014 and thereafter at 100 percent.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bonds and athletic facilities revenue bond obligations as of June 30, 2005, are as follows:

Revenue and Athletic Facilities Revenue Bonds			
	Principal	Interest	Total
Year Ending June 30			
2006	\$ 4,590,000	\$ 4,097,190	\$ 8,687,190
2007	4,815,000	3,888,534	8,703,534
2008	5,055,000	3,669,402	8,724,402
2009	5,315,000	3,436,765	8,751,765
2010	5,575,000	3,190,848	8,765,848
2011 through 2015	32,500,000	11,635,710	44,135,710
2016 through 2020	23,350,000	3,139,882	26,489,882
2021 through 2023	3,245,000	319,450	3,564,450
	\$ 84,445,000	\$ 33,377,781	\$ 117,822,781

NOTES TO FINANCIAL STATEMENTS

Amounts including interest required to complete payment of the Plant Improvement bonds as of June 30, 2005, are as follows:

Plant Improvement Refunding Bonds			
Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 665,000	\$ 194,415	\$ 859,415
2007	690,000	166,485	856,485
2008	720,000	137,160	857,160
2009	750,000	106,200	856,200
2010	790,000	72,450	862,450
2011	820,000	36,900	856,900
	<u>\$ 4,435,000</u>	<u>\$ 713,610</u>	<u>\$ 5,148,610</u>

Amounts including interest required to complete payment of the General Obligation Bonds as of June 30, 2005, are as follows:

General Obligation Bonds			
Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,950,000	\$ 1,844,864	\$ 4,794,864
2007	3,055,000	1,743,120	4,798,120
2008	3,160,000	1,636,755	4,796,755
2009	3,285,000	1,514,647	4,799,647
2010	3,410,000	1,385,375	4,795,375
2011 through 2015	19,210,000	4,777,375	23,987,375
2016 through 2018	11,535,000	908,525	12,443,525
	<u>\$ 46,605,000</u>	<u>\$ 13,810,661</u>	<u>\$ 60,415,661</u>

In prior years the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2005, \$40,000 of bonds outstanding are considered defeased. The University was in compliance with all applicable bond covenants as of June 30, 2005.

The University reported principal retirements and interest expenses related to the bonds as follows for the year ended June 30, 2005:

Principal Retirements and Interest Expenses		
<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds	\$ 2,855,000	\$ 1,932,053
Plant Improvement Refunding Bonds	635,000	216,375
Revenue Bonds	2,605,000	3,126,487
Athletic Facilities Revenue Bonds	1,095,000	1,058,753
	<u>\$ 7,190,000</u>	<u>\$ 6,333,668</u>

NOTES TO FINANCIAL STATEMENTS

Notes Payable

At June 30, 2005, notes payable consisted of the following:

Notes Payable			
	Interest	Maturity	Amount
CU Foundation (CUF) Note dated 6/30/03	6.000%	6/30/2009	\$ 409,285
SC Energy Office Note dated 7/1/03	1.000%	7/1/2013	442,754
			<u>\$ 852,039</u>

The Note Payable dated 6/30/03 is with the Clemson University Foundation (CUF). Proceeds were used to construct a new building at the Apparel Research Facility.

Future payments on the note payable are to be funded from future operating revenues.

The aggregate debt service payments due on the notes payable at June 30, 2005 are as follows:

Debt Service - Notes Payable			
	Principal	Interest	Total
Year Ending June 30			
2006	\$ 47,250	\$ 29,007	\$ 76,257
2007	176,172	26,634	202,806
2008	184,474	18,332	202,806
2009	193,258	9,548	202,806
2010	49,179	2,521	51,700
2011 through 2013	201,706	5,093	206,799
	<u>\$ 852,039</u>	<u>\$ 91,135</u>	<u>\$ 943,174</u>

Total principal paid on notes payable was \$196,190 for the year ended June 30, 2005. Total interest expense for notes payable was \$27,393.

NOTE 7. LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, office space) and equipment and also is obligated under capital leases and installment purchase agreements for the acquisition of real property. All capital and operating leases are with parties outside state government.

Future commitments for capital leases (which here and on the Statement of Net Assets include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2005, were as follows:

Capital and Operating Lease Commitments		
	Capital Leases	Operating Leases
Year Ending June 30:		
2006	\$ 1,471,349	\$ 395,955
2007	1,471,349	278,266
2008	802,939	57,280
2009	525,000	44,988
2010	525,000	—
2011	481,250	—
Total minimum lease payments	<u>5,276,887</u>	<u>\$ 776,489</u>
Less: Interest	847,959	
Less: Executory Costs	152,574	
Principal outstanding - Clemson University	<u>\$ 4,276,354</u>	

NOTES TO FINANCIAL STATEMENTS

Capital Leases

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2007 and 2011. Expenses for fiscal year 2005 were \$1,471,349, of which \$349,517 represented interest and \$32,451 represented executory costs. Total principal paid on capital leases was \$1,078,501 for the fiscal year ended June 30, 2005. Interest rates range from 5.50 percent to 7.58 percent.

The following is a summary of the carrying values of assets held under capital lease at June 30, 2005:

Assets Held Under Capital Lease			
	Value at Lease Inception	Accumulated Depreciation	Net
Land	\$ 122	\$ —	\$ 122
Buildings	13,908,588	5,967,833	7,940,755
Totals	\$ 13,908,710	\$ 5,967,833	\$ 7,940,877

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

The University had two capital leases with the Clemson University Research Foundation (CURF), its component unit, in the current fiscal year. In March 1988, the University entered into a capital lease of \$925,000 at 7.50 percent with CURF, a component unit, whereby the University leases land and a building for a twenty year period that began April 1988, and expires May 2008. The outstanding liability at June 30, 2005, on this capital lease is \$221,150. The University at its option may terminate the lease and purchase CURF's interest for the unamortized principal balance and the payment of \$1. In December 1998, the University entered into a capital lease of \$2,792,453 at 5.50 percent with CURF whereby the University leases a building for a nine year period that began December 1998, and expires December 2007. The outstanding liability at June 30, 2005, on this capital lease is \$684,647. The University at its option may terminate the lease and purchase CURF's interest for the unamortized principal balance and the payment of \$1. The lease payments for fiscal year 2005 through 2007 are computed at a rate of 3.625%.

The University had two capital leases with unrelated parties in the current fiscal year. In June 1991, the University entered into a capital lease of \$5,186,861 at 7.58 percent whereby the University leases a building for a twenty year period that began June 1991, and expires June 2011. The outstanding liability at June 30, 2005 on this capital lease is \$2,337,375. In December 1986, the University entered into a capital lease of \$5,004,395 at 7.5 percent for a computer building whereby the University leases a building for a twenty-year period that began December 1987, and expires December 2007. The University may cancel the lease agreement at the end of any fiscal year when sufficient appropriations, revenues, income, grants or other funding sources are not available. The University has the option to purchase the property for the redemption price and the payment of \$1. However, in the event of cancellation, the University has agreed not to purchase, lease or rent similar facilities for one year following such cancellation. The University is responsible for all operating costs such as repairs, utilities and insurance for this lease. The

outstanding liability at June 30, 2005 for this capital lease was \$1,033,182.

Operating Leases

The University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2005 through 2009. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

In 1996, the University entered into a real property operating lease with the Clemson University Research Foundation (CURF), a component unit, for office space. The current lease extends through February, 2006. Under this agreement, the University paid CURF \$107,354 in the current year.

In 2000, the University entered into a real property operating lease with CURF, a component unit, for office space. The current lease extends through June, 2006. Under this agreement, the University paid CURF \$38,905 in the current year.

In 2001, the University entered into a real property operating lease with CURF, a component unit, for office space. The current lease extends through July, 2006. Under this agreement, the University paid CURF \$16,873 in the current year.

Noncancellable operating lease expenses in 2005 were \$1,509,423 for real property and \$79,023 for information technology equipment. The University reports these costs in functional expenditure categories.

Besides the real property operating leases with CURF mentioned above, the University had no other operating leases with related parties in the current fiscal year.

In the current fiscal year, Clemson University incurred expenses of \$806,567 for office copier contingent rentals on a cost-per-copy basis.

**NOTE 8.
RETIREMENT 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 29211-1960. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years earned service (five years earned effective January 1, 2001) and qualify for a survivor's benefit upon completion of 15 years credited service. Effective January 1, 2001 disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years earned service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of eligible

compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent which includes a 3.25 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, 2005, 2004 and 2003, were approximately \$11,013,000, \$10,377,000 and \$10,846,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$218,799 in the current fiscal year at the rate of .15 percent of compensation.

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

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 13.55 percent which, as for the SCRS, included a 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2005, 2004 and 2003, were approximately \$212,000, \$213,000 and \$253,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$4,115 and accidental death insurance contributions of \$4,115 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable functional expenditure categories to which the related salaries

NOTES TO FINANCIAL STATEMENTS

are charged.

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 to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

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, unclassified and classified employees not in temporary or part-time permanent positions who meet all eligibility requirements for membership in the SCRS. Election into either SCRS or ORP must be made within their first thirty (30) days of employment. A State ORP participant could have irrevocably elected to join the SCRS during the open enrollment period of January 1 – March 31, 2005 during the fifth anniversary of the person's initial enrollment in the State ORP.

A person hired on or after July 1, 2003, to fill a temporary position or a part-time permanent position becomes eligible to participate in the ORP. However, an employee who exercises an option to not participate in the South Carolina Retirement Systems is not eligible to participate in the State Optional Retirement Program, unless a break in service occurs.

All eligible employees shall elect either to join the South Carolina Retirement System or to participate in the State "ORP" within thirty days after entry into service. If an eligible employee fails to make the initial election within the required

time, the employee is considered to have elected membership in the South Carolina Retirement System. An election made pursuant to this section must be made in writing and filed with the retirement system and the appropriate officer of the employee's participating employer and is effective on the date of employment. A State ORP participant who accepts an additional concurrent position with an employer participating in the South Carolina Retirement System must enroll in the State ORP for the second position if the second position is eligible to participate in the State ORP. Also, a member of the South Carolina Retirement System who accepts an additional concurrent position with an employer participating in the South Carolina Retirement System must enroll in the South Carolina Retirement System with respect to that position.

A State ORP participant may irrevocably elect to join the SCRS during any open enrollment period after the first annual anniversary but before the fifth annual anniversary of the person's initial enrollment period in the State ORP. The State ORP participant shall become a member of the SCRS effective on the first of April following the participant's election to join the SCRS.

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 3.25 from the employer in fiscal year 2005.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$6,902,000 (excluding the surcharge) from the University as employer and \$5,485,000 from its employees as plan members. Employee contributions of 6 percent, and 5 percent of the employer contribution was remitted directly to the respective annuity policy providers. The balance of the employer portion was remitted to the Retirement Division of the State Budget and Control Board. The obligation for payment of benefits resides with the insurance companies.

NOTE 9. POSTEMPLOYMENT 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 employment and meet eligibility. Eligibility for retiree insurance is based on years of state service credit, or age and years of state service credit. Eligibility rules include regular state funded retiree, age 55/25 year, 5-10 year, disability, police officers retirement, and 20 year rule. Specifics may be obtained from the Employee Insurance Program publication Insurance Benefits Guide. Retiree insurance begins the first of the month after retirement

NOTES TO FINANCIAL STATEMENTS

or eligibility is met, provided the necessary forms are completed by the retiree and received by the Employee Insurance Program within state guidelines.

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.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately \$14,574,000 for the year ended June 30, 2005. As discussed in Note 8, the University paid approximately \$7,779,000 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Employee Insurance Program 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 10. 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 Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Eligibility rules and penalties may apply. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005 was as follows:

Long-Term Liabilities	July 1, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
Bonds Payable, Notes Payable and Capital Lease Obligations:					
General Obligation Bonds	\$ 49,460,000	\$ —	\$ 2,855,000	\$ 46,605,000	\$ 2,950,000
Plant Improvement Bonds	5,070,000	—	635,000	4,435,000	665,000
Revenue Bonds	63,210,000	—	2,605,000	60,605,000	3,435,000
Athletic Facilities Revenue Bonds	24,935,000	—	1,095,000	23,840,000	1,155,000
Subtotal Bonds Payable	<u>142,675,000</u>	<u>—</u>	<u>7,190,000</u>	<u>135,485,000</u>	<u>8,205,000</u>
Plus: Unamortized premium	771,708	—	55,122	716,586	55,122
Total Bonds Payable	143,446,708	—	7,245,122	136,201,586	8,260,122
Notes Payable	1,048,229	—	196,190	852,039	47,250
Capital Lease Obligations	5,354,855	—	1,078,501	4,276,354	1,146,895
Total Bonds, Notes & Capital Leases	<u>149,849,792</u>	<u>—</u>	<u>8,519,813</u>	<u>141,329,979</u>	<u>9,454,267</u>
Other Liabilities					
Accrued compensated absences	17,284,000	12,413,143	11,556,143	18,141,000	12,196,020
Funds held for others	7,219,923	510,438	133,499	7,596,862	—
Total Other Liabilities	<u>24,503,923</u>	<u>12,923,581</u>	<u>11,689,642</u>	<u>25,737,862</u>	<u>12,196,020</u>
Total Long-Term Liabilities	<u>\$ 174,353,715</u>	<u>\$ 12,923,581</u>	<u>\$ 20,209,455</u>	<u>\$ 167,067,841</u>	<u>\$ 21,650,287</u>

NOTES TO FINANCIAL STATEMENTS

Additional information regarding Bonds and Notes Payable is included in Note 6. Additional information regarding Capital Lease Obligations is included in Note 7. The balance in the long-term liability account "Funds held for others" represents the Federal liability for the Perkins Loan program and longevity incentives for athletic coaches.

NOTE 12. CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The University has obtained or has plans to obtain the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable capital asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next 2 or 3 years at an estimated cost of \$213,393,895. The \$213,393,895 includes estimated costs of \$119,763,172 for capital projects currently in progress plus \$93,630,723 estimated costs for other capital projects already in service. Of the total estimated cost, \$75,117,838, was unexpended at June 30, 2005. Of the total expended through June 30, 2005, the University has capitalized substantially complete and in use projects in the amount of \$25,596,159. Of the unexpended balance the University has remaining commitment balances of \$31,051,148 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of June 30, 2005 was \$2,819,988. Capital projects at June 30, 2005 which constitute construction in progress that are to be capitalized when completed are listed below.

Construction Costs and Commitments			
Project Number	Project	Approximate Cost	Amount Expended
9694	Athletic Facilities Construction/Renovation	\$ 40,540,172	\$ 15,570,234
9807	Academic Support Center	435,000	348,520
9831	Clemson University ICAR Graduate Engineering Center	26,103,269	2,253,968
9832	Clemson University ICAR Group Data Center	15,396,731	10,190,303
9793	Fraternity Dormitories Renovation	25,627,000	24,445,493
9536	Garrison Arena Horse Barn	600,000	219,095
9810	Jervey McFadden Renovation	1,500,000	655,660
9839	Johnstone Upgrade	200,000	32,721
9776	Microcreamery	50,000	42,356
9841	Municiple Services Complex	100,000	550
9532	Sandhill REC Office/Lab Building	6,900,000	538,415
9812	President's Park Rotunda	56,000	41,433
9815	Rowing Facility	1,900,000	152,175
9801	Washdown Facility	355,000	111,157
		<u>\$ 119,763,172</u>	<u>\$ 54,602,080</u>

The amount expended includes only capitalized project expenses and capitalized interest on construction debt for projects less than 95% complete and not in service at June 30, 2005. No noncapitalized expenses are included in these totals.

Non-Capitalized

At June 30, 2005 the University had in progress other capital projects which will not be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total \$39,636,572. This amount includes costs incurred to date of \$14,205,138 and estimated costs to complete of \$25,431,434. The University has remaining commitment balances with certain parties related to these projects of \$2,988,492. Retainages payable on the non-capitalized projects as of June 30, 2005, was \$82,198. The University anticipates funding these projects out of current resources, current and future bond issues, state capital improvement bond proceeds, private gifts and student fees.

NOTES TO FINANCIAL STATEMENTS

**NOTE 13.
RELATED PARTIES**

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program.

The activities of these entities are not included in the University’s financial statements. However, the University’s statements include transactions between the University and its related parties.

In conjunction with GASB Statements No. 14 and No. 39, “*Determining Whether Certain Organizations Are Component Units*”, management annually reviews its relationships with the related parties described in this note. The University excluded these related parties from the reporting entity because it is not financially accountable for them.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and Clemson University.

Clemson University Real Estate Foundation

The Clemson University Real Estate Foundation, Inc., is a separately chartered entity organized to hold, and invest acquired real estate property. The Real Estate Foundation’s actions are governed by its Board of Directors. This past fiscal year the University purchased approximately 14 acres from the Clemson University Real Estate Foundation for approximately \$1.3 million for the Clemson University

International Center for Automotive Research (Clemson University ICAR) project in Greenville, South Carolina.

Clemson University Continuing Education And Conference Complex Corporation

The Clemson University Continuing Education and Conference Complex Corporation (Finance Corporation), is a separately chartered corporation established in September, 1993, to construct, operate and manage the golf course and hotel components of the Clemson University Continuing Education and Conference Complex. The Finance Corporation’s actions are governed by its Board of Directors. The Finance Corporation reimbursed the University \$65,397 for salaries for time devoted by University employees to the Finance Corporation.

Clemson Advancement Foundation For Design and Building

The Clemson Advancement Foundation For Design and Building is a separately chartered eleemosynary corporation established to support and enrich the professional programs in the College of Architecture, Arts and Humanities. The Design and Building Foundation’s actions are governed by its Board of Trustees.

The University’s financial statements reflect \$142,000 in expenses to reimburse the Design and Building Foundation for administrative and educational expenses incurred at the Charles E. Daniel Center for Building Research and Urban Studies in Genoa, Italy, which is owned by the Design and Building Foundation.

**NOTE 14.
TRANSACTIONS 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. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University’s base budget amount presented in the General Funds column of Sections 5D and 23 of Part IA of the 2004-05 Appropriation Act. 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 fiscal year ended June 30, 2005:

State Appropriations			
	Educational and General	Public Service	Total
Original appropriation	\$ 85,371,275	\$ 36,055,087	\$ 121,426,362
Proviso 73.9 - Increased Enforcement Collections	—	2,753,047	2,753,047
Appropriation allocations from the State Commission on Higher Education:			
For Academic Endowment Match	95,770	—	95,770
For Clemson Agriculture Education Teachers - Teacher Recruitment	—	162,195	162,195
For Clemson Agriculture Education Teachers - Teacher Salary Supplements	—	114,338	114,338
Municipal Services	931,747	—	931,747
Films and Fibers	814,749	—	814,749
Wireless Center	500,000	—	500,000
Appropriation transfer to the Medical University of South Carolina (MUSC) for: Agromedicine	—	(209,614)	(209,614)
Total State Appropriation Revenues	\$ 87,713,541	\$ 38,875,053	\$ 126,588,594

NOTES TO FINANCIAL STATEMENTS

The University received substantial funding from the Commission on Higher Education (“CHE”) for scholarships on behalf of students that are accounted for as operating state grants and contracts. Additional amounts received from CHE are accounted for as both operating and nonoperating revenues, depending upon the requirement of deliverables with a current or potential future economic value. The University also receives State funds from various other State agencies for sponsored research and public service projects. Following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2005:

Other Amounts Received from State Agencies

	Operating Revenues	Nonoperating Revenues	Capital and Endowment Proceeds	Total
Received from the Commission on Higher Education (CHE):				
LIFE Scholarships	\$ 19,981,185	\$ —	\$ —	\$ 19,981,185
Palmetto Scholarships	7,883,710	—	—	7,883,710
Need-Based Grants	1,973,455	—	—	1,973,455
HOPE Scholarships	148,400	—	—	148,400
University Center	1,227,101	—	—	1,227,101
Access and Equity Competitive Grants	—	69,451	—	69,451
SC Experimental Programs to Stimulate Competitive Research	—	588,116	—	588,116
SC Manufacturing Extension Partnership	—	89,989	—	89,989
SC Alliance for Minority Participation	—	43,957	—	43,957
Partnership Assistance	—	26,613	—	26,613
Received from Department of Health & Environmental Control	1,455,612	—	—	1,455,612
Received from the Department of Education	969,307	—	—	969,307
Received from various other state agencies	1,413,219	—	—	1,413,219
State lottery funding for permanent endowments	—	—	2,160,000	2,160,000
Capital improvement bond revenues	—	—	503,671	503,671
Economic development bond revenues	—	—	11,965,267	11,965,267
	<u>\$ 35,051,989</u>	<u>\$ 818,126</u>	<u>\$ 14,628,938</u>	<u>\$ 50,499,053</u>

The University provided no significant services free of charge to any State agency during the fiscal year; however, the University did provide computer services and information systems development for a fee to other State agencies during the fiscal year. Total fees received were \$8,772,948, comprised of \$3,841,241 in fees for computer services classified as other operating revenues, and \$4,931,707 in information and systems development fees classified as sales and services of auxiliary enterprises.

Also, the University collected and remitted \$89,049 in fertilizer taxes, seed certification and pesticide registration fees to the State General Fund.

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 the 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 State 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

contributions, 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 2005 expenditures applicable to related transactions with state entities are not readily available.

NOTE 15. 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. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management 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

NOTES TO FINANCIAL STATEMENTS

itself assumes substantially all risks for the following:

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

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except 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 risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

- (1) Theft of, damage to, or destruction of assets;
- (2) Real property, its contents, and other equipment;
- (3) Motor vehicles, aircraft, and watercraft (inland marine);
- (4) Torts;
- (5) Business interruptions;
- (6) Natural disasters; and
- (7) Medical malpractice claims against covered infirmaries and employees.

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 purchases insurance for aircraft and ocean marine coverage. 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 commercial insurers for employee fidelity bond insurance. All employees are covered for \$500,000 for Commercial Crime. This coverage includes the following:

- (1) Blanket employee dishonesty;
- (2) Forgery/alterations;
- (3) Theft, disappearance of money and security; and
- (4) Computer fraud

In addition, the Chief Business Officer is covered for \$200,000 under a public official bond, and the postmaster is covered under a performance bond for \$75,000. Both the Coordinator for Revenue and Receivables and Associate Comptroller-Related Organizations are covered by a \$2,000,000 bond. A \$2,000,000 bond also covers the Director of Finance and Administration for Advancement.

The University has recorded insurance premium expenses and expenses for deductibles in applicable functional expense categories.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, and policy limits for all coverage to a State or commercial insurer. The University has not reported an estimated claims loss expense, and the related liability at June 30, 2005, based on the requirements of GASB Statement No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2005, and the amount of the loss is reasonably estimable.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore no loss accrual has been recorded.

NOTE 16. CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

The various federal programs administered by the University for fiscal year 2005 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTES TO FINANCIAL STATEMENTS

**NOTE 17.
OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended June 30, 2005 are summarized as follows:

Operating Expenses by Function						
	Compensation and Employee Benefits	Services and Supplies	Utilities	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 111,864,211	\$ 18,620,052	\$ 1,199,408	\$ —	\$ 146,032	\$ 131,829,703
Research	72,871,929	29,923,928	1,354,346	—	429,694	104,579,897
Public Service	35,049,714	16,582,110	1,140,156	—	—	52,771,980
Academic Support	24,556,729	9,537,132	375,297	—	—	34,469,158
Student Services	13,119,304	5,849,875	231,052	—	8,200	19,208,431
Institutional Support	16,309,969	4,159,458	251,477	—	—	20,720,904
Operation and						
Maintenance of Plant	16,498,049	15,384,447	3,143,019	—	—	35,025,515
Scholarships and Fellowships	9,667	186,654	—	—	7,530,933	7,727,254
Auxiliary Services	23,990,288	34,717,544	4,337,672	—	—	63,045,504
Depreciation	—	—	—	24,473,694	—	24,473,694
	<u>\$ 314,269,860</u>	<u>\$ 134,961,200</u>	<u>\$ 12,032,427</u>	<u>\$ 24,473,694</u>	<u>\$ 8,114,859</u>	<u>\$ 493,852,040</u>

**NOTE 18.
DONOR-RESTRICTED ENDOWMENTS**

If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expense the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

In accordance with the spending policy adopted by the Clemson University Board of Trustees in 1998, endowment-derived program expenses are based on the endowment carrying value from the previous year at a percentage set by the Board. For fiscal year 2005, this rate was 4.50%. At June 30, 2005, net appreciation of \$2,375,120 is available to be spent, and is reported in the Statement of Net Assets as restricted for expendable scholarships and fellowships.

**NOTE 19.
DETAILS OF RESTRICTED ASSETS**

The purposes and amounts of University Restricted Assets are as follows:

Details of Retricted Assets	
Current:	
Cash and cash equivalents:	
As specified by sponsors/donors	\$ 13,185,920
University administered loans	43,923
Payment of maturing debt	3,231,807
Bond proceeds and other amounts restricted for capital projects	18,094,881
Funds held for others	550,038
	<u>\$ 35,106,569</u>
Noncurrent:	
Cash and cash equivalents:	
Endowments	\$ 27,772,057
Federal Perkins Loan Program	902,604
	<u>\$ 28,674,661</u>
Student Loans Receivable:	
Federal Perkins Loan Program	\$ 8,011,469

NOTES TO FINANCIAL STATEMENTS

**NOTE 20.
INFORMATION FOR INCLUSION IN THE STATE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

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

Statement of Activities			
	2005	2004	Increase/ (Decrease)
Charges for services	\$ 333,511,718	\$ 311,996,682	\$ 21,515,036
Operating grants and contributions	70,654,734	61,573,015	9,081,719
Capital grants and contributions	7,487,422	2,567,896	4,919,526
Less: expenses	<u>(500,850,714)</u>	<u>(482,790,096)</u>	<u>(18,060,618)</u>
Net program revenue (expense)	<u>(89,196,840)</u>	<u>(106,652,503)</u>	<u>17,455,663</u>
General revenues:			
Contributions to permanent endowments	2,169,530	7,004,519	(4,834,989)
Transfers:			
State appropriations	126,588,594	126,020,449	568,145
Capital improvement bond proceeds	12,468,938	2,543,172	9,925,766
Less: transfers out to state agencies/funds	<u>(197,174)</u>	<u>(299,401)</u>	<u>102,227</u>
Total general revenue and transfers	<u>141,029,888</u>	<u>135,268,739</u>	<u>5,761,149</u>
Change in net assets	51,833,048	28,616,236	23,216,812
Net assets - beginning	<u>455,833,172</u>	<u>427,216,936</u>	<u>28,616,236</u>
Net assets - ending	<u>\$ 507,666,220</u>	<u>\$ 455,833,172</u>	<u>\$ 51,833,048</u>

**NOTE 21.
COMPONENT UNITS**

Clemson University Foundation

The Clemson University Foundation (CUF) is a separately chartered corporation organized exclusively to promote the development and welfare of Clemson University in its educational and scientific purposes.

As discussed in Note 1, CUF has been included in the reporting entity as a component unit. Because CUF is deemed not to be a governmental entity and uses a different reporting model, its balances and transactions are reported on separate financial statements.

CUF transfers funds earmarked from private contributions to the University to support University scholarship, fellowship, professorship, and research programs and to reimburse the University for any purchases made by CUF. These transfers for fiscal year 2005 were recorded by the University as nonoperating gift revenues totaling \$8,338,137. CUF also reimbursed the University \$244,402 for salaries for time devoted by University employees to CUF, and transferred royalty payments totaling \$304,500.

Equipment donated by CUF to the University totaled \$7,947 and was recorded as capital grants and gifts in the Statement of Revenues, Expenses and Changes in Net Assets. Also recorded as capital grants and gifts upon receipt were CUF donations totaling \$4,439,457 for University building projects. As of June 30, 2005, CUF had remaining commitments of approximately \$600,000 for University

building projects.

As referenced in Note 3, a 1999 amendment to the South Carolina Code of Laws allowed state-supported universities to lend endowment balances on deposit with the State Treasurer to entities (like CUF) whose existence is primarily providing financial assistance and other support to the institution and its educational program. At fiscal year end, the amount loaned, including income and appreciation, totaled \$60,548,399.

CUF investment securities and donated negotiable assets are stated at fair value as determined by quoted market prices. Real estate investments are stated primarily at the current appraised value.

CUF investment income, net of external and internal management expenses and fees, and gains and losses arising from the sale or other disposition of investments and other noncash assets is distributed to the various endowments using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

CUF Endowment and board-designated funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Under this policy, earnings, not to exceed a specified percentage, could be used to support the intended purposes. Any such earnings used to support the intended purposes are allocated only from those funds which have a market value in excess of historical value.

NOTES TO FINANCIAL STATEMENTS

A summary of investments at fair value at June 30, 2005 follows:

Investments	
U.S. Government obligations	\$ 57,978,088
Corporate bonds	2,301,732
U.S. Equities	158,531,248
Global equities	36,315,083
Private equity	23,815,493
Hedge funds	938,588
Real estate	1,124,960
Other	591,501
	<u>\$ 281,596,693</u>

Clemson University Research Foundation

The Clemson University Research Foundation (CURF) is a separately chartered corporation established to solicit research grants and contracts, then contract the University to perform the research. CURF's activities are governed by its Board of Directors.

As discussed in Note 1, CURF has been included in the reporting entity as a component unit and is discretely presented in the financial statements.

The University performs research and development under performance agreements for CURF, and receives payment for all direct and indirect costs which are incurred in accordance with the terms of the performance agreements. Revenues totaling \$3,720,748 from CURF were recorded by the University in the Statement of Revenues, Expenditures and Changes in Net Assets as operating nongovernmental grants and contracts. Grants and contracts receivable in the Statement of Net Assets includes \$663,888 due from CURF at June 30, 2005.

Also, the University made \$101,784 in capital lease payments to CURF for lease of a building and land and \$163,132 in operating lease payments for office space. Equipment donated by CURF to the University totaled \$42,889 and was recorded as capital grants and gifts in the Statement of Revenues, Expenses and Changes in Net Assets. CURF reimbursed the University \$263,151 for salaries for time devoted by University employees to CURF. CURF paid \$78,450 in legal expenses on behalf of the University.

**NOTE 22.
SUBSEQUENT EVENTS**

During the fall of 2005, Clemson University anticipates two (2) revenue bond issues to partially finance renovations to the West End Zone of Memorial Stadium (Athletic Facilities Revenue Bonds); and improvements to seven (7) residence halls/apartments on campus, and the refunding of the final six maturities of the Series 2000 bonds (Clemson University Revenue Bonds). The Clemson University Board of Trustees adopted series resolutions authorizing the issuance of the proposed bonds on October 22, 2004, and the State Budget and Control Board of South Carolina approved the issuance of the above referenced bonds on December 14, 2004.

Clemson University Athletic Facilities Revenue Bonds, Series 2005, NTE \$15,000,000, will partially fund improvements and renovations to the west-end zone of Memorial Stadium. Phase I improvements (\$39,840,000, estimated) will connect the North and South stands with a new concourse, provide corner seating, new locker rooms for players, coaches, and game-officials, a new recruiting lounge, restrooms and concession facilities, and 1,000 club level seats. Construction is to be completed by the beginning of the 2006 home football season.

Clemson University Revenue Bonds, Series 2005, NTE \$25,000,000, will partially fund the installation of fire sprinkler systems in residence halls/apartments, which do not presently have such systems and upgrade of the HVAC system in Calhoun Courts. The above improvements are scheduled to be completed by the summer of 2007. In addition, it appears some debt service savings may be realized by the advance refunding and defeasance of the callable maturities of the Series 2000 Revenue Bonds.

*Supplementary Information
to the Financial Statements*

CLEMSON UNIVERSITY
SCHEDULE OF PLEDGED NET REVENUES
AUXILIARY REVENUE BONDS (SERIES 2000)
For the year ended June 30, 2005

	Dining Services	Vending Operations	Bookstore	Parking Services	Housing	Total
Revenues:						
Student meal plans	\$ 9,724,919	\$ —	\$ —	\$ —	\$ —	\$ 9,724,919
Food service commissions	1,318,369	—	—	—	—	1,318,369
Other	—	—	—	—	202,245	202,245
Residence halls	—	—	—	—	21,024,882	21,024,882
Campus vending machines	—	500,157	—	—	—	500,157
ATM rental	—	101,141	—	—	—	101,141
Contract revenue	—	315,870	1,484,742	111,464	205,526	2,117,602
Parking permits	—	—	—	1,350,853	—	1,350,853
Parking citations	—	—	—	563,373	—	563,373
Investment income	375,367	384,690	224,061	259,513	376,623	1,620,254
Total revenues	11,418,655	1,301,858	1,708,803	2,285,203	21,809,276	38,523,795
Expenses:						
Salaries	80,338	16,668	36,305	305,457	4,463,263	4,902,031
Fringe benefits	21,100	4,491	8,538	81,298	1,155,820	1,271,247
Travel	10,256	—	986	26,097	60,485	97,824
Contractual services	7,536,956	—	—	889,120	396,205	8,822,281
Repairs	261,947	1,267	787	42,829	710,605	1,017,435
Telecommunications	2,983	—	—	5,034	1,159,071	1,167,088
Heat, light, and power	409,635	—	7,918	413	1,441,744	1,859,710
Water, sewer and garbage	76,440	—	—	—	374,393	450,833
Rents	87,940	—	—	64,261	12,744	164,945
Supplies and materials	152,859	—	—	57,012	792,764	1,002,635
Insurance	5,817	—	—	987	149,830	156,634
University debit card fees	225,127	29,440	—	—	156,469	411,036
Cable television	—	—	—	—	552,866	552,866
Security	—	—	—	—	534,029	534,029
Other operating expenses	249,814	11,647	8,396	464,737	2,173,334	2,907,928
Capital outlay	—	—	—	—	35,541	35,541
Total expenses	9,121,212	63,513	62,930	1,937,245	14,169,163	25,354,063
Net Revenues	\$ 2,297,443	\$ 1,238,345	\$ 1,645,873	\$ 347,958	\$ 7,640,113	\$ 13,169,732

CLEMSON UNIVERSITY
SCHEDULE OF PLEDGED NET REVENUES
ATHLETIC FACILITIES REVENUE BONDS (SERIES 2001 and 2003)
For the year ended June 30, 2005

	Football	Basketball	Other Sports	NonProgram Specific	Total
Revenues:					
Ticket sales	\$ 10,230,549	\$ 1,090,804	\$ 321,413	\$ —	\$ 11,642,766
Student fees	1,172,163	124,979	—	—	1,297,142
Away game sales and guarantees	1,115,575	357,939	—	—	1,473,514
Contributions	1,867,169	690,320	2,591,329	1,039,196	6,188,014
Third-party support	297,500	110,000	37,500	—	445,000
NCAA/Conference distributions including all tournament revenues	5,049,867	2,909,086	—	809,874	8,768,827
Broadcast, television, radio and internet rights	—	—	—	275,000	275,000
Program sales, concessions, novelty sales and parking	1,066,255	81,631	53,479	887,724	2,089,089
Royalties, advertisements and sponsorships	130,000	—	—	1,226,704	1,356,704
Endowment and Investment Income	—	—	—	697,687	697,687
Other	1,697,318	125,823	242,818	196,120	2,262,079
Total operating revenues	22,626,396	5,490,582	3,246,539	5,132,305	36,495,822
Expenses:					
Athletic Student Aid	1,792,135	623,930	2,501,215	776,764	5,694,044
Guarantees	1,625,000	425,123	26,011	—	2,076,134
Coaching salaries, benefits and bonuses paid by the institution and related entities	2,480,419	1,786,148	2,269,467	—	6,536,034
Coaching other compensation and benefits paid by a third party	297,500	110,000	37,500	—	445,000
Support staff/administrative salaries, benefits and bonuses paid by the institution and related entities	434,239	285,428	43,990	5,045,044	5,808,701
Recruiting	256,736	168,842	226,250	—	651,828
Team travel	545,303	678,854	944,803	145,646	2,314,606
Equipment, uniforms and supplies	643,947	84,516	305,835	116,421	1,150,719
Game expenses	1,173,094	313,548	169,962	—	1,656,604
Fund raising, marketing and promotion	—	—	—	393,456	393,456
Direct facilities, maintenance and rental	62,979	21,169	14,052	1,304,619	1,402,819
Indirect facilities and administrative support	—	—	—	678,120	678,120
Other operating expenses	433,591	409,001	470,261	4,357,888	5,670,741
Total operating expenses	9,744,943	4,906,559	7,009,346	12,817,958	34,478,806
Net Revenues	\$ 12,881,453	584,023	\$ (3,762,807)	\$ (7,685,653)	2,017,016



Statistical Section

SCHEDULE OF REVENUES BY SOURCE

For the Year Ended June 30,

(amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:					
Student Tuition and Fees (net of scholarship allowances)	\$ 149,405	\$ 131,049	\$ 111,346	\$ 97,269	\$ 85,753
Federal Grants and Contracts	58,488	63,438	62,687	51,222	43,783
State Grants and Contracts	35,052	31,451	29,158	19,885	20,090
Local Grants and Contract	1,678	1,136	1,319	1,103	837
Nongovernmental Grants and Contracts	9,800	9,742	10,140	8,656	7,100
Sales and Services of Educational and Other Activities	13,646	11,596	9,675	9,481	7,757
Sales and Services of Auxiliary Enterprises (net of scholarship Allowances)	65,443	63,585	60,049	58,158	59,647
Other Operating Revenues	14,496	14,263	13,204	12,156	11,310
Total Operating Revenues	<u>\$ 348,008</u>	<u>\$ 326,260</u>	<u>\$ 297,578</u>	<u>\$ 257,930</u>	<u>\$ 236,277</u>
State Appropriations	126,589	126,020	139,615	155,453	165,918
Federal Appropriations	10,986	10,339	11,492	9,772	16,260
Gifts	28,686	24,295	23,232	26,892	30,318
Interest Income	5,102	4,916	7,587	7,405	8,048
Endowment Income	6,252	6,769	2,563	(1,788)	(439)
Other Non Operating Revenues	657	991	1,490	1,423	519
Capital Grants and Appropriations	19,956	5,111	16,745	14,347	19,041
Permanent Endowment Additions	2,170	7,004	20	235	79
Proceeds from the sale of land	5,029	-	-	14,016	-
Total Non Operating Revenues	<u>205,427</u>	<u>185,455</u>	<u>202,744</u>	<u>227,755</u>	<u>239,744</u>
Total Revenues	<u>\$ 553,435</u>	<u>\$ 511,705</u>	<u>\$ 500,322</u>	<u>\$ 485,685</u>	<u>\$ 476,021</u>

Note: Due to reporting format and definition changes prescribed by Governmental Standards Statement No. 34 and 35, only information for Fiscal years 2001-2005 is available.

Source: Clemson University Financial Statements.

For the Year Ended June 30,
(percent of total revenue)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:					
Student Tuition and Fees (net of scholarship allowances)	27.0%	25.6%	22.3%	20.0%	18.0%
Federal Grants and Contracts	10.6%	12.4%	12.5%	10.5%	9.2%
State Grants and Contracts	6.3%	6.2%	5.9%	4.1%	4.2%
Local Grants and Contract	0.3%	0.2%	0.3%	0.2%	0.2%
Nongovernmental Grants and Contracts	1.8%	1.9%	2.0%	1.8%	1.5%
Sales and Services of Educational and Other Activities	2.5%	2.3%	1.9%	2.0%	1.6%
Sales and Services of Auxiliary Enterprises (net of scholarship Allowances)	11.8%	12.4%	12.0%	12.0%	12.5%
Other Operating Revenues	2.6%	2.8%	2.6%	2.5%	2.4%
Total Operating Revenues	62.9%	63.8%	59.5%	53.1%	49.6%
State Appropriations	22.9%	24.6%	27.9%	32.0%	34.9%
Federal Appropriations	2.0%	2.0%	2.3%	2.0%	3.4%
Gifts	5.2%	4.7%	4.6%	5.6%	6.4%
Interest Income	0.9%	1.0%	1.6%	1.5%	1.7%
Endowment Income	1.1%	1.3%	0.5%	(0.4%)	(0.1%)
Other Non Operating Revenues	0.1%	0.2%	0.3%	0.3%	0.1%
Capital Grants and Appropriations	3.6%	1.0%	3.3%	3.0%	4.0%
Permanent Endowment Additions	0.4%	1.4%	0.0%	0.0%	0.0%
Proceeds from the sale of land	0.9%	0.0%	0.0%	2.9%	0.0%
Total Non Operating Revenues	37.1%	36.2%	40.5%	46.9%	50.4%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%

SCHEDULE OF EXPENSES BY USE AND FUNCTION

For the Year Ended June 30,

(amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expenses:					
Compensation and Employee Benefits	\$ 314,270	\$ 298,717	\$ 304,259	\$ 292,247	\$ 271,332
Services and Supplies	134,961	130,586	124,100	108,322	113,665
Utilities	12,032	12,103	11,542	12,006	11,198
Depreciation	24,474	23,323	22,359	19,158	18,694
Scholarships and Fellowships	8,115	9,962	10,238	9,090	9,268
Total Operating Expenses	<u>493,852</u>	<u>474,691</u>	<u>472,498</u>	<u>440,823</u>	<u>424,157</u>
Interest on Capital Asset Related Debt	6,743	6,794	5,321	4,300	3,979
Loss on Disposal of Capital Assets	553	1,205	1,094	1,396	1,226
Refunds to Grantors	256	100	335	289	340
Transfers to State General Fund	198	299	549	418	359
Total Non Operating Expenses	<u>7,750</u>	<u>8,398</u>	<u>7,299</u>	<u>6,403</u>	<u>5,904</u>
Total Expenses	<u>\$ 501,602</u>	<u>\$ 483,089</u>	<u>\$ 479,797</u>	<u>\$ 447,226</u>	<u>\$ 430,061</u>

For the Year Ended June 30,

(amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expenses:					
Instruction	\$ 131,830	\$ 121,968	\$ 119,546	\$ 114,357	\$ 107,677
Research	104,580	104,510	101,788	93,953	87,659
Public Services	52,772	51,496	57,502	56,508	56,571
Academic Support	34,469	28,484	31,367	28,811	22,749
Student Services	19,208	18,868	17,842	17,614	15,757
Institutional Support	20,721	18,843	18,074	17,287	17,983
Operation and Maintenance of Plant	35,025	36,211	35,880	28,167	28,529
Scholarships and Fellowships	7,727	9,626	9,871	8,682	8,894
Auxiliary Enterprises	63,046	61,362	58,269	56,286	59,644
Interest on Capital Debt	6,743	6,794	5,321	4,300	3,979
Depreciation	24,474	23,323	22,359	19,158	18,694
Loss on Disposal of Capital Assets	553	1,205	1,094	1,396	1,226
Refunds to Grantors	256	100	335	289	340
Transfers to State General Fund	198	299	549	418	359
Total Expenses	<u>\$ 501,602</u>	<u>\$ 483,089</u>	<u>\$ 479,797</u>	<u>\$ 447,226</u>	<u>\$ 430,061</u>

Note: Due to reporting format and definition changes prescribed by Governmental Standards Statement No. 34 and 35, only information for Fiscal years 2001-2005 is available.

Source: Clemson University Financial Statements.

For the Year Ended June 30,

(percent of total expenses)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expenses:					
Compensation and Employee Benefits	62.7%	61.8%	63.4%	65.3%	63.1%
Services and Supplies	26.9%	27.0%	25.9%	24.2%	26.4%
Utilities	2.4%	2.5%	2.4%	2.7%	2.6%
Depreciation	4.9%	4.8%	4.7%	4.3%	4.3%
Scholarships and Fellowships	1.6%	2.1%	2.1%	2.0%	2.2%
Total Operating Expenses	98.5%	98.2%	98.5%	98.5%	98.6%
Interest on Capital Asset Related Debt	1.3%	1.4%	1.1%	1.0%	0.9%
Loss on Disposal of Capital Assets	0.1%	0.2%	0.2%	0.3%	0.3%
Refunds to Grantors	0.1%	0.1%	0.1%	0.1%	0.1%
Transfers to State General Fund	0.0%	0.1%	0.1%	0.1%	0.1%
Total Non Operating Expenses	1.5%	1.8%	1.5%	1.5%	1.4%
Total Expenses	100.0%	100.0%	100.0%	100.0%	100.0%

For the Year Ended June 30,

(percent of total expenses)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expenses:					
Instruction	26.3%	25.2%	24.9%	25.6%	25.0%
Research	20.8%	21.6%	21.2%	21.0%	20.4%
Public Services	10.5%	10.7%	12.0%	12.6%	13.2%
Academic Support	6.8%	5.9%	6.5%	6.4%	5.3%
Student Services	4.0%	3.9%	3.7%	3.8%	3.7%
Institutional Support	4.1%	3.9%	3.8%	3.9%	4.1%
Operation and Maintenance of Plant	7.0%	7.5%	7.5%	6.3%	6.6%
Scholarships and Fellowships	1.5%	2.0%	2.1%	2.0%	2.1%
Auxiliary Enterprises	12.6%	12.7%	12.1%	12.6%	13.9%
Interest on Capital Debt	1.3%	1.4%	1.1%	1.0%	0.9%
Depreciation	4.9%	4.8%	4.7%	4.3%	4.3%
Loss on Disposal of Capital Assets	0.1%	0.2%	0.2%	0.3%	0.3%
Refunds to Grantors	0.1%	0.1%	0.1%	0.1%	0.1%
Transfers to State General Fund	0.0%	0.1%	0.1%	0.1%	0.1%
Total Expenses	100.0%	100.0%	100.0%	100.0%	100.0%

UNDERGRADUATE AVERAGE ANNUAL TUITION AND FEES

At Doctoral-Level Public Institutions

Last ten years

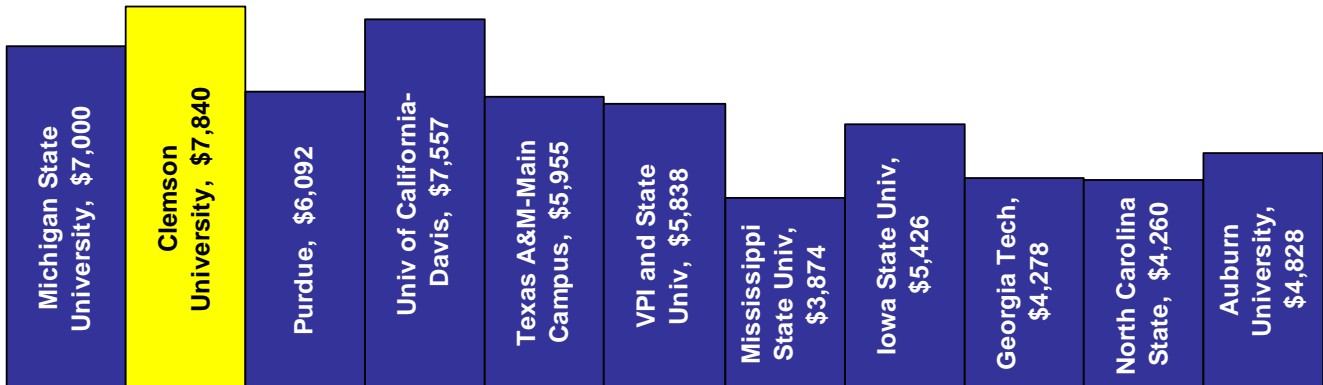
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Institution - Resident										
Michigan State University	\$7,000	\$6,703	\$5,022	\$4,632	\$4,256	\$4,120	\$4,032	\$3,944	\$3,834	\$3,725
Clemson University	7,840	6,934	5,834	4,490	3,590	3,470	3,344	3,252	3,112	3,112
Purdue	6,092	5,860	5,580	4,164	3,872	3,724	3,564	3,352	3,208	3,056
Univ of California-Davis	7,557	6,438	4,630	4,595	4,072	4,034	4,153	4,332	4,262	4,174
Texas A & M	5,955	5,051	3,949	3,127	2,809	2,640	2,419	2,337	1,977	2,011
VPI and State University	5,838	5,095	3,936	3,664	3,640	3,620	4,305	4,147	4,131	4,087
Mississippi State Univ	3,874	3,874	3,874	3,586	3,117	3,017	3,017	2,731	2,631	2,591
Iowa State Univ	5,426	5,028	4,110	3,442	3,132	3,004	2,874	2,766	2,666	2,574
Georgia Tech	4,278	4,076	3,616	3,454	3,308	3,108	2,991	2,901	2,685	2,457
North Carolina State	4,260	3,970	3,827	3,302	2,814	2,414	2,364	2,200	2,200	1,732
Auburn University	4,828	4,426	3,784	3,260	3,050	2,895	2,760	2,565	2,355	2,250

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Institution - Non Resident										
Michigan State University	\$17,845	\$16,663	\$12,276	\$11,310	\$10,388	\$10,042	\$9,806	\$9,596	\$9,486	\$9,209
Clemson University	16,404	14,532	12,932	11,284	9,784	9,456	9,100	8,676	8,316	8,316
Purdue	18,700	17,640	16,260	13,872	12,904	12,348	11,784	11,184	10,636	10,128
Univ of California-Davis	24,513	20,648	17,009	15,669	14,686	14,208	13,727	13,316	12,656	11,873
Texas A & M	13,695	12,131	9,181	8,191	7,969	7,824	7,531	7,473	7,113	6,619
VPI and State University	16,581	15,029	13,552	12,488	12,128	11,844	11,521	11,111	10,783	10,739
Mississippi State Univ	8,780	8,780	8,780	8,125	7,065	6,119	6,119	5,551	5,451	5,411
Iowa State Univ	15,128	14,370	12,802	10,776	9,974	9,564	9,152	8,808	8,480	8,192
Georgia Tech	17,558	16,002	13,986	12,350	10,826	10,350	9,921	9,621	8,946	7,638
North Carolina State	16,157	15,818	15,111	13,294	11,980	11,580	11,530	10,732	10,732	9,848
Auburn University	14,048	12,886	11,084	9,780	9,150	8,685	8,280	7,695	7,065	6,750

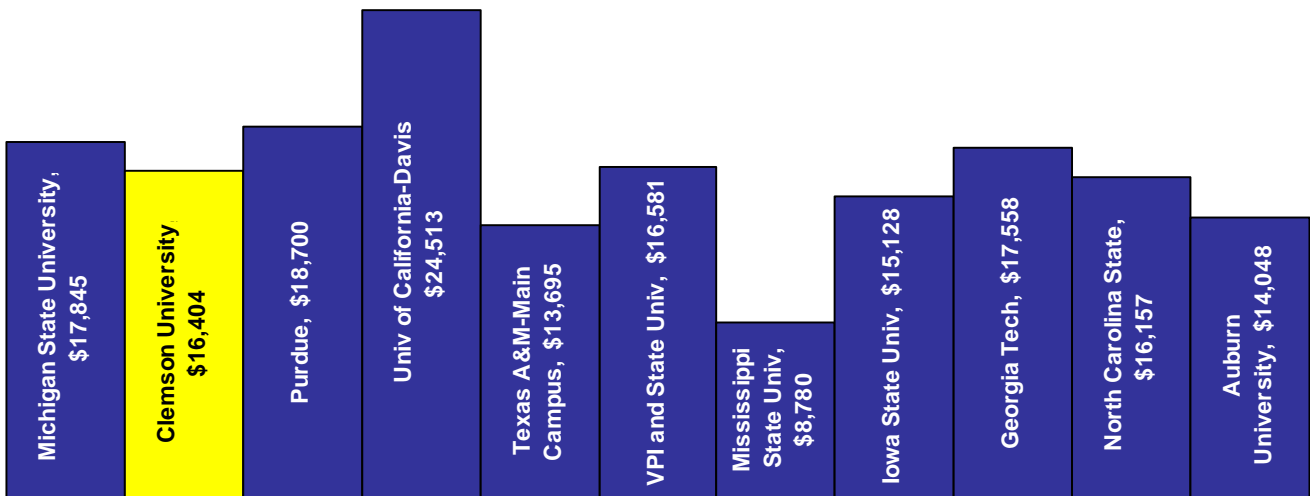
Source: University of Wyoming - telephone surveys, mail surveys, and web sites.

* These figures are for undergraduate first-time, full-time students with an academic year of 24 semester hours or 36 quarter hours

Undergraduate Tuition and Fees - Resident - 2005



Undergraduate Tuition and Fees - Non Resident - 2005



SCHEDULE OF BOND COVERAGE

Last Ten Fiscal Years
(amounts in thousands)

General Obligation Bonds

Fiscal Year Ended June 30,	Tuition and Matriculation Fees	Total Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
			Principal	Interest	Total	
2005	\$ 7,120	\$7,120	\$ 2,855	\$ 1,932	\$4,787	1.49
2004	6,881	6,881	4,005	1,921	5,926	1.16
2003	6,876	6,876	1,615	1,530	3,145	2.19
2002	4,843	4,843	985	555	1,540	3.14
2001	4,325	4,325	930	608	1,538	2.81
2000	3,568	3,568	875	658	1,533	2.33
1999	2,983	2,983	835	704	1,539	1.94
1998	2,880	2,880	790	747	1,537	1.87
1997	2,826	2,826	365	353	718	3.94
1996	2,789	2,789	1,095	422	1,517	1.84

Plant Improvement Bonds

Fiscal Year Ended June 30,	Special Student Fee	Total Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
			Principal	Interest	Total	
2005	\$ 1,005	\$ 1,005	\$ 635	\$ 216	\$ 851	1.18
2004	1,003	1,003	615	242	857	1.17
2003	1,002	1,002	590	266	856	1.17
2002	1,177	1,177	570	292	862	1.37
2001	1,204	1,204	515	324	839	1.43
2000	1,114	1,114	485	354	839	1.33
1999	1,160	1,160	390	428	818	1.42
1998	1,134	1,134	370	327	697	1.63
1997	1,108	1,108	345	571	916	1.21
1996	1,099	1,099	330	591	921	1.19

Source: Clemson University Office of Fiscal Affairs.

Athletic Facilities Revenue Bonds

Fiscal Year Ended June 30,	Net Athletic Revenues	Admissions Fee	Total Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
				Principal	Interest	Total	
2005	\$ 2,017	\$ 1,744	\$ 3,761	\$ 1,095	\$ 1,059	\$ 2,154	1.74
2004	2,701	1,796	4,497	1,040	1,105	2,145	2.10
2003	2,850	1,449	4,299	985	871	1,856	2.32
2002	2,527	833	3,360	1,025	823	1,848	1.82
2001	1,088	771	1,859	-	-	-	1.00

Revenue Bonds

Fiscal Year Ended June 30,	Defined Net Revenue Available for Debt Service	Total Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
			Principal	Interest	Total	
2005	\$ 13,170	\$ 13,170	\$ 2,605	\$3,126	\$ 5,731	2.30
2004	11,865	11,865	2,555	3,048	5,603	2.12
2003	12,141	12,141	2,435	2,157	4,592	2.64
2002	10,760	10,760	2,445	2,290	4,735	2.27
2001	9,116	9,116	2,340	2,398	4,738	1.92
2000	8,437	8,437	2,340	1,235	3,575	2.36
1999	6,848	6,848	2,325	1,339	3,664	1.87
1998	7,392	7,392	1,395	467	1,862	3.97

ADMISSIONS, ENROLLMENT AND DEGREE STATISTICS

Last Ten Academic Years

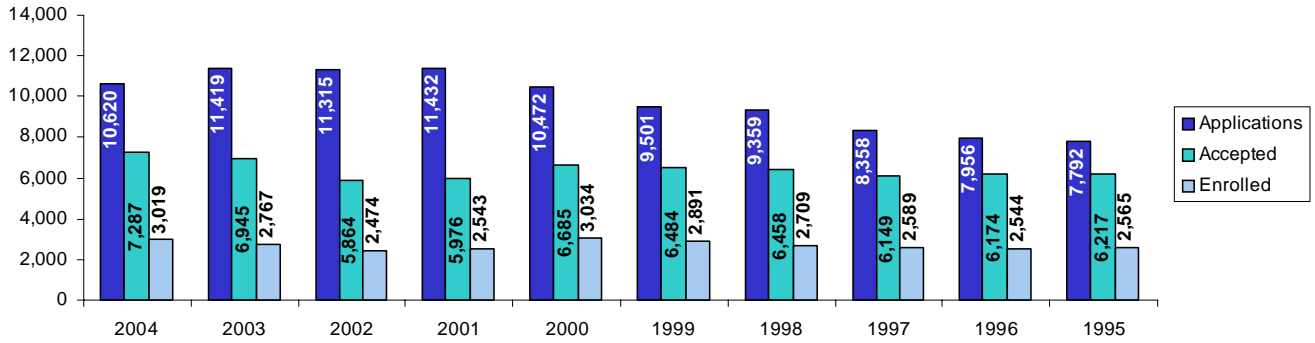
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Admissions-Freshman										
Accepted as a Percentage of Applications	68.6%	60.8%	42.2%	52.3%	63.8%	68.2%	69.0%	73.6%	77.6%	79.8%
Enrolled as a Percentage of Accepted	41.4%	39.8%	51.8%	42.6%	45.4%	44.6%	41.9%	42.1%	41.2%	41.3%
SAT Scores-Total	1,203	1,204	1,205	1,191	1,172	1,158	1,145	1,140	1,128	1,042
Verbal	589	587	587	584	575	569	564	577	557	483
Math	614	617	618	607	597	589	581	563	571	559
South Carolina Average SAT Score-Total	986	989	981	974	966	954	951	955	954	844

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Enrollment										
Undergraduate and Graduate FTE	15,948	15,780	15,620	15,800	16,053	15,685	15,258	15,087	14,978	14,847
Undergraduate and Graduate Headcount	17,110	17,016	16,876	17,101	17,465	16,982	16,685	16,396	16,526	16,318
Percentage of Men	54.8%	54.8%	54.6%	54.6%	53.8%	54.1%	53.1%	53.0%	53.6%	53.8%
Percentage of Women	45.2%	45.2%	45.4%	45.4%	46.2%	45.9%	46.8%	47.0%	46.4%	46.2%
Percentage of Black	6.7%	7.1%	7.1%	7.4%	7.1%	7.3%	6.9%	7.5%	7.6%	7.7%
Percentage of White	78.4%	85.0%	85.0%	85.0%	85.8%	85.5%	86.2%	86.0%	85.9%	86.1%
Percentage of Other	14.9%	7.9%	7.9%	7.6%	7.1%	7.2%	6.7%	6.5%	6.5%	6.3%

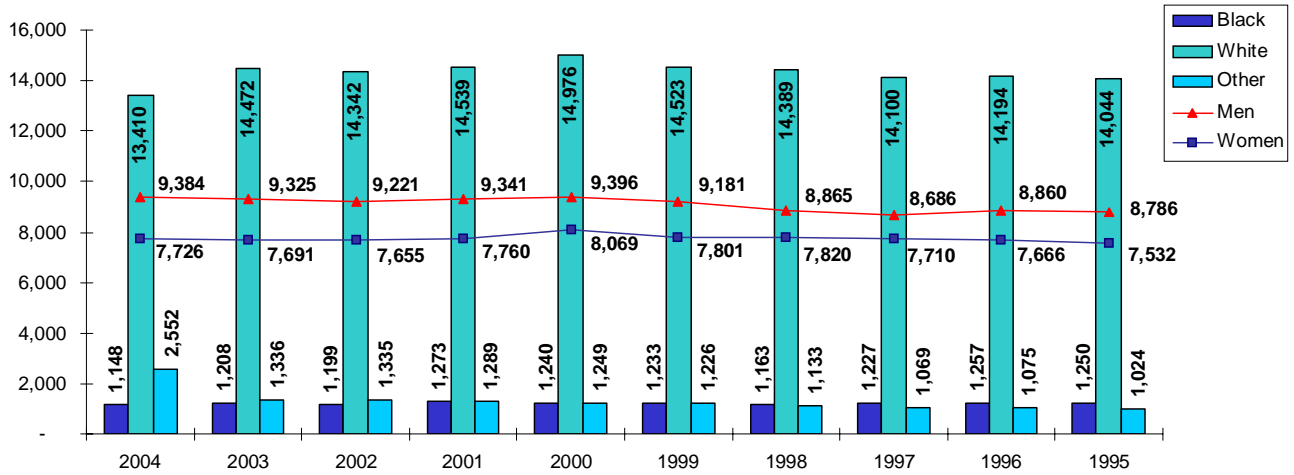
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Degrees Earned										
Bachelor's	2,941	3,073	2,973	2,823	2,725	2,565	2,531	2,463	2,530	2,513
Master's	914	805	808	764	887	795	896	910	926	989
Doctoral	122	120	121	121	100	114	116	110	90	125

Source: Clemson University Office of Institutional Research

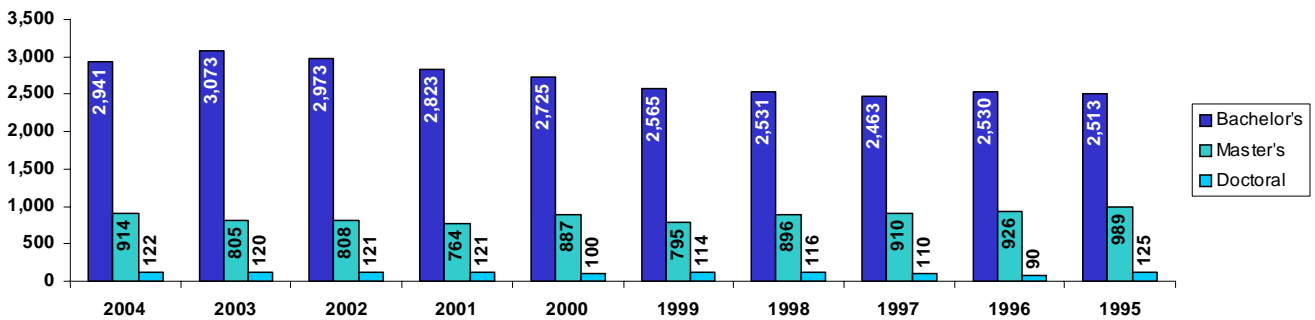
Freshman Applied, Accepted and Enrolled



Headcount Total

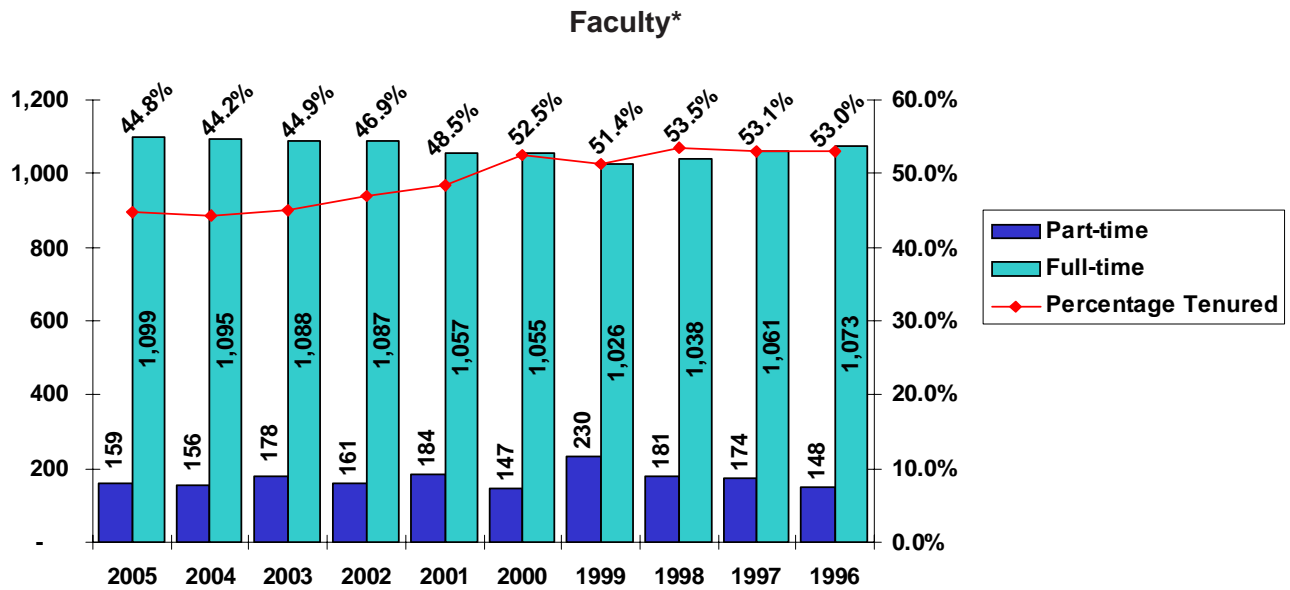


Degrees Earned



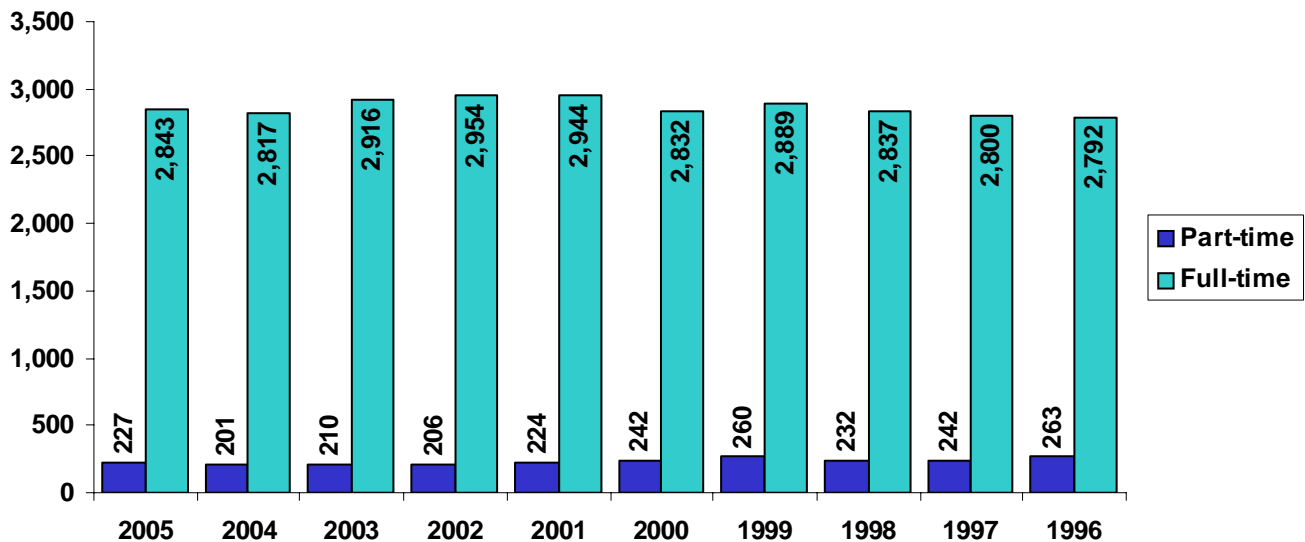
FACULTY AND STAFF STATISTICS

Last Ten Fiscal Years



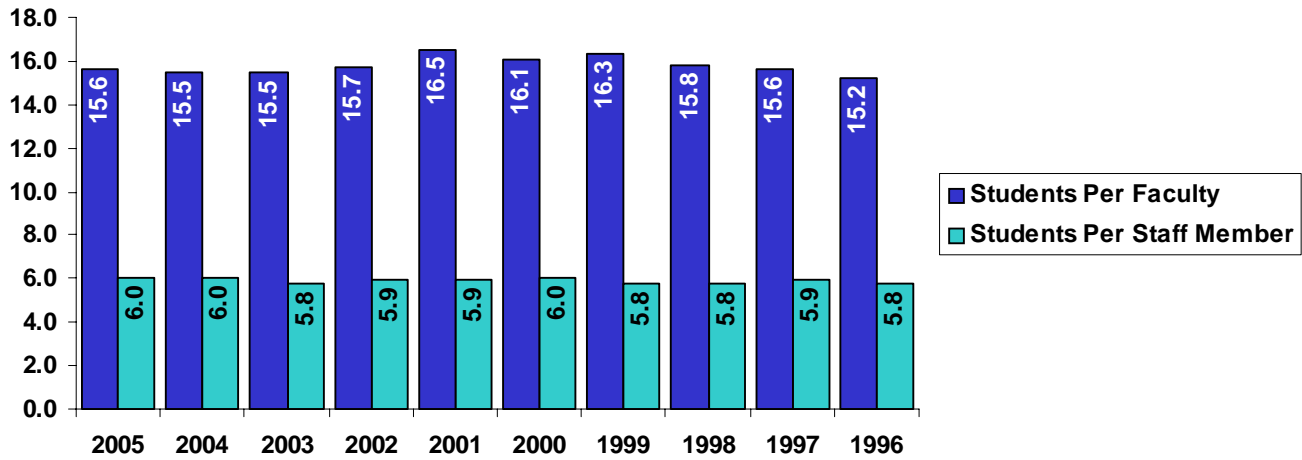
*IPEDS faculty (Instructional, Research and Public Service).

Full-Time and Part-Time Staff

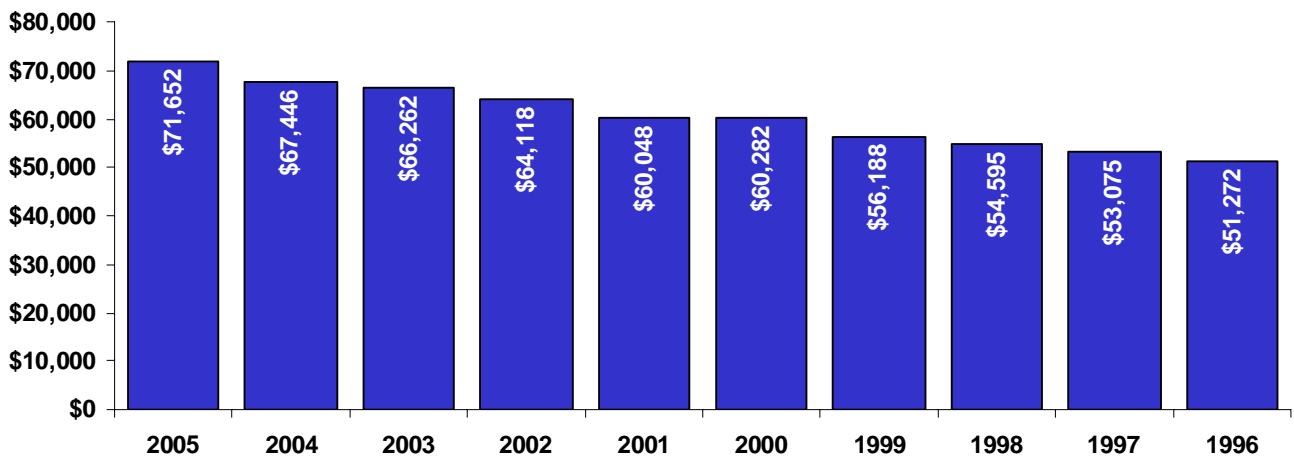


Source: Clemson University Office of Institutional Research.

Students Per Faculty/Staff



Average Annual Faculty Salary



This Comprehensive Annual Financial Report is also available
on the Clemson University Comptroller Office website located at
<http://www.comptroller.clemson.edu/>

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