

**SOUTH CAROLINA CENTERS
OF ECONOMIC EXCELLENCE**

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2006

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
INDEX
YEAR ENDED JUNE 30, 2006**

	Page
REVIEW BOARD	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 6
SECTION I - FINANCIAL STATEMENTS	
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	7
STATEMENT OF PROGRAM REVENUES AND EXPENDITURES – CONSOLIDATED SUMMARY	8 - 9
STATEMENT OF PROGRAM REVENUES AND EXPENDITURES – CLEMSON UNIVERSITY	10 - 15
STATEMENT OF PROGRAM REVENUES AND EXPENDITURES – MEDICAL UNIVERSITY OF SOUTH CAROLINA	16 - 20
STATEMENT OF PROGRAM REVENUES AND EXPENDITURES – UNIVERSITY OF SOUTH CAROLINA	21 - 25
NOTES TO FINANCIAL STATEMENTS	26 - 28
SECTION II - COMPLIANCE	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30 - 34

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
REVIEW BOARD
JUNE 30, 2006**

<u>NAME</u>	<u>POSITION</u>	<u>APPOINTMENT</u>
Benjamin T. Rook	Chairman	Speaker of the House
Samuel J. Tenenbaum	Vice Chairman	Governor
Paula Harper-Bethea	Secretary	Speaker of the House
Edward T. McMullen, Jr.	Member	Speaker of the House
Robert W. Pearce, Jr.	Member	Governor
Anthony O'Neill	Member	President Pro Tempore of the Senate
Harry M. Lightsey, III	Member	President Pro Tempore of the Senate
John M. Rivers	Member	Governor
Donald Babb	Member	President Pro Tempore of the Senate
James F. Barker, FAIA	Non-Voting Member	Ex-Officio
Raymond S. Greenberg, M.D., Ph.D.	Non-Voting Member	Ex-Officio
Andrew A. Sorensen, Ph.D.	Non-Voting Member	Ex-Officio



South Carolina Centers of Economic Excellence
Management's Discussion and Analysis
Period: Fiscal Years 2003-2006

The following discussion and analysis has been prepared by staff from the Commission on Higher Education to provide an overview of the activities of the South Carolina Centers of Economic Excellence Program (Endowed Chairs Program) for fiscal years 2003-2006. This discussion and analysis should be read in conjunction with the financial statement and accompanying notes to the financial statement. The financial statement has been prepared by an independent auditor (Derrick, Stubbs & Stith, LLP) in accordance with S.C. 2-75-10.

Overview of Endowed Chairs Program

In 2002, the South Carolina General Assembly passed the Research Centers of Economic Excellence Act. The legislation appropriated \$200 million through 2010¹ from the South Carolina Education Lottery to establish unique Centers of Economic Excellence at South Carolina's three senior research institutions: Clemson University, University of South Carolina, and Medical University of South Carolina. Each Center of Economic Excellence (CoEE) specializes in unique, knowledge-economy research (in fields such as engineering, nanotechnology, biomedical science, and energy science) that promotes and creates enhanced economic opportunities for the state.

¹ The General Assembly appropriated \$30 million per year in the state budget for fiscal years 2003 through 2006.

The Act also created the CoEE Review Board, which provides program oversight. The Review Board is composed of nine members: three appointed by the Governor; three by the President Pro Tempore of the Senate; and three by the Speaker of the House of Representatives. Membership terms are three years, and individuals may serve three total terms. The presidents of South Carolina's three research universities also serve as ex-officio, non-voting members of the Review Board. Staff and operational support for the Endowed Chairs Program is provided by Commission on Higher Education staff. The Commission on Higher Education approves the operational budget for the program.

The CoEE Review Board held its first meeting on October 17, 2002, at which it approved formal Bylaws. At the December 5, 2002, meeting, the Review Board approved *Program Guidelines and Requests for Proposals Guidelines for 2002-2003*, which established a competitive, annual process whereby Centers of Economic Excellence are proposed by the research institutions and approved by the Review Board. The three-tier review process includes two rigorous scientific evaluations (a technical review and an onsite panel review), followed by the Review Board's analysis of the review findings and a formal vote on individual proposals.

Once a new CoEE is approved by the Review Board, an institution has 18 months in which to solicit non-state (private, federal, or municipal) investors to pledge dollar-for-dollar matching of a CoEE's state award total (between \$2 million to \$5 million). These matching pledges must be realized within 78 months of a CoEE's approval date. State funds may only be drawn against realized non-state pledges. The majority of funds (all of the state funds, plus no less than \$2 million of the non-state match²) are placed in endowments, used to pay the salaries or salary supplements of the world-class scientists (endowed chairs) specially recruited to lead each CoEE, as well as specialized equipment, laboratory construction, other faculty, and research assistants.

² In 2006-2007, the Review Board changed this minimum figure from \$2 million to 40% of the non-state match total.

Over time, each research institution has developed concentrated CoEE focus areas. Clemson University's core strengths lay in the area of automotive engineering (with four CoEE's at the International Center for Automotive Research), as well as in the architectural sciences and materials development. USC's Centers generally fall within the three clusters of future fuels (including hydrogen and solid oxide fuel cell research), the biomedical sciences, and nanotechnology. MUSC's strengths lie in the areas of neuroscience, cancer research, vascular disease, and health care quality & finance.

One hallmark of the Endowed Chairs Program is an almost unprecedented scientific collaboration at the academic level. One-third of the CoEE's are scientific partnerships between and among South Carolina public institutions, including two four-year comprehensive teaching universities. Dr. John Schaefer, chair-holder at MUSC's Clinical Effectiveness and Patient Safety CoEE, has noted that such academic collaboration rarely exists anywhere in the nation—not even at Harvard and Yale. The lure of bonded research partnerships serves as an enticing recruiting tool to the renowned scientists required to lead each Center.

At the end of fiscal year 2006, the CoEE Review Board had approved 29 Centers of Economic Excellence and 50 endowed chairs.³ Nine specialized research positions were appointed within the first four years of the program. As envisioned by the General Assembly, the program has turned into an economic boon for the state. By the end of FY 2006, of the \$120 million in state funding approved by the CoEE Review Board,⁴ \$80 million in matching pledges had been committed by non-state sources, with more than \$48 million of these pledges realized and \$41.6 million in state funds drawn down by the research institutions.⁵

³ Clemson University withdrew the Restoration CoEE in July 2007, which included two endowed chairs.

⁴ At the October 30, 2006, Review Board meeting, the Review Board voted that three previous CoEE proposals approved for \$6 million (Regenerative Medicine, Clinical Effectiveness & Patient Safety, and Childhood Neurotherapeutics) be reduced to the statutory maximum of \$5 million.

⁵ At close of FY 2007, these figures are \$144 million, \$89 million, \$62 million, and \$54 million, respectively.

List of Approved Centers of Economic Excellence: 2003-2006

2002-03			
Institution	Funding Yr 02-03	Proposal Title	Proposal Amount
Clemson	2002-03	Automotive Design & Development	\$5 million
Clemson	2002-03	Automotive Manufacturing	\$5 million
Clemson	2003-04	Automotive Systems Integration	\$5 million
MUSC	2002-03	Proteomics	\$4 million
MUSC	2002-03	Neuroscience	\$3 million
MUSC/College of Charleston	2002-03	Marine Genomics	\$4 million
MUSC/Clemson/USC	2003-04	Regenerative Medicine	\$6 million ⁶
USC	2002-03	Nanostructures	\$4 million
USC/MUSC	2002-03	Brain Imaging	\$5 million
Total in 2002-03			\$30 million
Total 2003-04 Funding approved in 2002-03			\$11 million
2003-04			
Institution	Funding Yr 03-04	Proposal Title	Proposal Amount
Clemson	2003-04	Optical Materials	\$5 million
Clemson	2003-04	Vehicle Electronic Systems	\$3 million
Clemson	2004-05	Restoration [WITHDRAWN 7-07]	\$3 million
MUSC/USC	2003-04	Translational Cancer Therapeutics	\$5 million
MUSC/USC	2004-05	Cancer Drug Discovery	\$5 million
USC	2003-04	Polymer Nanocomposites	\$3.5 million
USC	2003-04 2004-05	Hydrogen & Fuel Cell Economy	<u>\$2.5 million</u> \$2.5 million
USC/Coastal Carolina	2004-05	Travel & Tourism Technology	\$2 million
Total in 2003-04			\$19 million
Total 2004-05 Funding approved in 2003-04			\$12.5 million
2004-05			
Institution	Funding Year 04-05	Proposal Title	Proposal Amount
Clemson	2004-05	Electron Imaging	\$5 million
Clemson	2005-06	Supply Chain, Optimiz. & Logistics	\$2 million
Clemson	2005-06	Urban Ecology and Restoration	\$2 million
MUSC	2004-05	Gastrointestinal Cancer Diagnostics	\$5 million
MUSC/USC	2004-05	Vision Science	\$4.5 million
MUSC/USC/Clemson	2005-06	Clinical Effect. & Patient Safety	\$6 million ⁷
USC	2004-05	Renewable Fuel Cells	\$3 million
Total in 2004-05			\$17.5 million
Total 2005-06 Funding approved in 2004-05			\$10 million

⁶ Reduced to \$5 million on October 30, 2006. [See footnote 2, page 3.]

⁷ Ibid.

2005-06			
Institution	Funding Year 05-06	Proposal Title	Proposal Amount
Clemson	2005-06	Advanced Fiber-Based Materials	\$4 million
Clemson	2005-06	Molecular Nutrition	\$2 million
MUSC	2005-06	Molecular Proteomics in CV Disease & Prevention	\$5 million
USC	2005-06	Solid Oxide Fuel Cells	\$3 million
USC/MUSC	2005-06	Childhood Neurotherapeutics	\$6 million ⁸
Total in 2005-06			\$19 million
Total Since Program Inception			\$120 million

ENDOWED CHAIRS PROGRAM FIGURES		
Institution	Number of Approved Programs	Number of Chairs Approved
Clemson University	11	14
University of South Carolina	8	16
Medical University of South Carolina	10	20
TOTALS	29	50

⁸ Id.



DERRICK, STUBBS & STITH, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

508 Hampton Street, 1st Floor • Post Office Box 36
Columbia, South Carolina 29202-0036
Telephone: (803) 799-5810 • Facsimile: (803) 799-5554
www.dsscpa.com

A. David Masters, CPA
Charles R. Statler, Jr., CPA
Alan F. Grimsley, CPA
Hugh R. Penny, CPA, CISA, CBA
H. Warren Counts, Jr. CPA
K. Todd Dailey, CPA, CVA
Timothy M. Monahan, CPA

RSM McGladrey Network
An Independently Owned Member

INDEPENDENT AUDITOR'S REPORT

To the Review Board
South Carolina Centers of Economic Excellence
Columbia, South Carolina

We have audited the statements of program revenues and expenditures of the South Carolina Centers of Economic Excellence (the Program) for the year ended June 30, 2006 as listed in the index. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the program revenues and expenditures of the South Carolina Centers of Economic Excellence for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2007, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 - 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Derrick, Stubbs & Stith, LLP

June 12, 2007

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
PROGRAM REVENUES AND EXPENDITURES - CONSOLIDATED SUMMARY
YEAR ENDING JUNE 30, 2006**

	Clemson University				Medical University of South Carolina					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ 7,500,000	\$ -	\$ -	\$ -	\$ 7,500,000	\$ 11,943,102	\$ -	\$ -	\$ -	\$ 11,943,102
Non-state matching funds	-	7,334,330	60,000	-	7,394,330	-	3,628,357	334,336	-	3,962,693
Total contribution revenue	<u>7,500,000</u>	<u>7,334,330</u>	<u>60,000</u>	<u>-</u>	<u>14,894,330</u>	<u>11,943,102</u>	<u>3,628,357</u>	<u>334,336</u>	<u>-</u>	<u>15,905,795</u>
Investment Income										
Realized gain (loss)	-	-	-	91,583	91,583	-	-	-	127,145	127,145
Unrealized gain	-	-	-	1,964,744	1,964,744	-	-	-	687,268	687,268
Endowment income	-	-	-	511,534	511,534	-	-	-	774,406	774,406
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,567,861</u>	<u>2,567,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,588,819</u>	<u>1,588,819</u>
Total revenue	<u>7,500,000</u>	<u>7,334,330</u>	<u>60,000</u>	<u>2,567,861</u>	<u>17,462,191</u>	<u>11,943,102</u>	<u>3,628,357</u>	<u>334,336</u>	<u>1,588,819</u>	<u>17,494,614</u>
Expenditures										
Personal services	-	-	-	49,340	49,340	-	-	154,898	-	154,898
Fringe	-	-	-	11,240	11,240	-	-	38,024	-	38,024
Travel	-	-	-	-	-	-	-	8,883	-	8,883
Scholarships	-	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	4,430	-	4,430
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Instructional materials	-	-	-	-	-	-	-	-	-	-
Indirect cost recovery	-	-	-	-	-	-	-	-	-	-
Employer contributions	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	-	-	-	129,327	16,621	184,974	330,922
Other	-	-	-	-	-	-	-	42,521	-	42,521
Equipment	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,580</u>	<u>60,580</u>	<u>-</u>	<u>129,327</u>	<u>265,377</u>	<u>184,974</u>	<u>579,678</u>
Program net income	7,500,000	7,334,330	60,000	2,507,281	17,401,611	11,943,102	3,499,030	68,959	1,403,845	16,914,936
Cumulative Program Net Income										
Beginning	9,160,000	9,460,000	-	2,089,119	20,709,119	8,250,000	5,647,446	636,748	1,013,928	15,548,122
Ending	<u>\$ 16,660,000</u>	<u>\$ 16,794,330</u>	<u>\$ 60,000</u>	<u>\$ 4,596,400</u>	<u>\$ 38,110,730</u>	<u>\$ 20,193,102</u>	<u>\$ 9,146,476</u>	<u>\$ 705,707</u>	<u>\$ 2,417,773</u>	<u>\$ 32,463,058</u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
PROGRAM REVENUES AND EXPENDITURES - CONSOLIDATED SUMMARY
YEAR ENDING JUNE 30, 2006**

	University of South Carolina				Total - Consolidated Summary					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ 1,114,145	\$ -	\$ -	\$ -	\$ 1,114,145	\$ 20,557,247	\$ -	\$ -	\$ -	\$ 20,557,247
Non-state matching funds	-	1,251,334	467,500	-	1,718,834	-	12,214,021	861,836	-	13,075,857
Total contribution revenue	<u>1,114,145</u>	<u>1,251,334</u>	<u>467,500</u>	<u>-</u>	<u>2,832,979</u>	<u>20,557,247</u>	<u>12,214,021</u>	<u>861,836</u>	<u>-</u>	<u>33,633,104</u>
Investment Income										
Realized gain (loss)	-	-	-	159,556	159,556	-	-	-	378,284	378,284
Unrealized gain	-	-	-	151,892	151,892	-	-	-	2,803,904	2,803,904
Endowment income	-	-	-	252,520	252,520	-	-	-	1,538,460	1,538,460
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>563,968</u>	<u>563,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,720,648</u>	<u>4,720,648</u>
Total revenue	<u>1,114,145</u>	<u>1,251,334</u>	<u>467,500</u>	<u>563,968</u>	<u>3,396,947</u>	<u>20,557,247</u>	<u>12,214,021</u>	<u>861,836</u>	<u>4,720,648</u>	<u>38,353,752</u>
Expenditures										
Personal services	-	-	274,661	30,000	304,661	-	-	429,559	79,340	508,899
Fringe	-	-	27,836	-	27,836	-	-	65,860	11,240	77,100
Travel	-	-	37,490	2,090	39,580	-	-	46,373	2,090	48,463
Scholarships	-	-	-	2,000	2,000	-	-	-	2,000	2,000
Advertising	-	-	595	-	595	-	-	595	-	595
Supplies	-	-	37,380	-	37,380	-	-	41,810	-	41,810
Contractual	-	-	5,239	-	5,239	-	-	5,239	-	5,239
Fixed charges	-	-	25,126	-	25,126	-	-	25,126	-	25,126
Instructional materials	-	-	17,864	-	17,864	-	-	17,864	-	17,864
Indirect cost recovery	-	-	3,652	-	3,652	-	-	3,652	-	3,652
Employer contributions	-	-	11,320	4,048	15,368	-	-	11,320	4,048	15,368
Administrative fees	-	-	-	67,080	67,080	-	129,327	16,621	252,054	398,002
Other	-	-	6,452	-	6,452	-	-	48,973	-	48,973
Equipment	-	-	168,173	-	168,173	-	-	168,173	-	168,173
Total expenditures	<u>-</u>	<u>-</u>	<u>615,788</u>	<u>105,218</u>	<u>721,006</u>	<u>-</u>	<u>129,327</u>	<u>881,165</u>	<u>350,772</u>	<u>1,361,264</u>
Program net income	1,114,145	1,251,334	(148,288)	458,750	2,675,941	20,557,247	12,084,694	(19,329)	4,369,876	36,992,488
Cumulative Program Net Income										
Beginning	3,662,920	2,690,321	659,960	275,541	7,288,742	21,072,920	17,797,767	1,296,708	3,378,588	43,545,983
Ending	<u>\$ 4,777,065</u>	<u>\$ 3,941,655</u>	<u>\$ 511,672</u>	<u>\$ 734,291</u>	<u>\$ 9,964,683</u>	<u>\$ 41,630,167</u>	<u>\$ 29,882,461</u>	<u>\$ 1,277,379</u>	<u>\$ 7,748,464</u>	<u>\$ 80,538,471</u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Automotive Design and Development				Automotive Manufacturing Integration					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -	\$ 1,000,000
Non-state matching funds	-	-	-	-	-	-	1,000,000	-	-	1,000,000
Total contribution revenue	-	-	-	-	-	1,000,000	1,000,000	-	-	2,000,000
Investment Income										
Realized gain	-	-	-	-	-	-	-	-	22,951	22,951
Unrealized gain	-	-	-	-	-	-	-	-	539,940	539,940
Endowment income	-	-	-	-	-	-	-	-	134,405	134,405
Total investment income	-	-	-	-	-	-	-	-	697,296	697,296
Total revenue	-	-	-	-	-	1,000,000	1,000,000	-	697,296	2,697,296
Expenditures										
Personal services	-	-	-	-	-	-	-	-	49,340	49,340
Fringe	-	-	-	-	-	-	-	-	11,240	11,240
Total expenses	-	-	-	-	-	-	-	-	60,580	60,580
Program net income	-	-	-	-	-	1,000,000	1,000,000	-	636,716	2,636,716
Cumulative Program Net Income										
Beginning	-	-	-	-	-	3,000,000	3,000,000	-	587,522	6,587,522
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,000,000	\$ 4,000,000	\$ -	\$ 1,224,238	\$ 9,224,238

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Automotive Systems Integration				Optical Materials					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,800,000	\$ -	\$ -	\$ -	\$ 2,800,000
Non-state matching funds	-	-	-	-	-	-	2,897,165	-	-	2,897,165
Total contribution revenue	-	-	-	-	-	2,800,000	2,897,165	-	-	5,697,165
Investment Income										
Realized gain	-	-	-	39,539	39,539	-	-	-	18,287	18,287
Unrealized gain	-	-	-	915,198	915,198	-	-	-	185,500	185,500
Endowment income	-	-	-	219,877	219,877	-	-	-	91,499	91,499
Total investment income	-	-	-	1,174,614	1,174,614	-	-	-	295,286	295,286
Total revenue	-	-	-	1,174,614	1,174,614	2,800,000	2,897,165	-	295,286	5,992,451
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	-	-	-
Program net income	-	-	-	1,174,614	1,174,614	2,800,000	2,897,165	-	295,286	5,992,451
Cumulative Program Net Income										
Beginning	5,000,000	5,000,000	-	1,340,317	11,340,317	-	-	-	-	-
Ending	\$ 5,000,000	\$ 5,000,000	\$ -	\$ 2,514,931	\$ 12,514,931	\$ 2,800,000	\$ 2,897,165	\$ -	\$ 295,286	\$ 5,992,451

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Vehicle Electronic Systems					Electron Imaging				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ 900,000	\$ -	\$ -	\$ -	\$ 900,000	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	540,000	60,000	-	600,000	-	-	-	-	-
Total contribution revenue	<u>900,000</u>	<u>540,000</u>	<u>60,000</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income										
Realized gain	-	-	-	10,768	10,768	-	-	-	-	-
Unrealized gain	-	-	-	248,135	248,135	-	-	-	-	-
Endowment income	-	-	-	58,674	58,674	-	-	-	-	-
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,577</u>	<u>317,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>900,000</u>	<u>540,000</u>	<u>60,000</u>	<u>317,577</u>	<u>1,817,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Program net income	900,000	540,000	60,000	317,577	1,817,577	-	-	-	-	-
Cumulative Program Net Income										
Beginning	1,160,000	1,460,000	-	161,280	2,781,280	-	-	-	-	-
Ending	<u>\$ 2,060,000</u>	<u>\$ 2,000,000</u>	<u>\$ 60,000</u>	<u>\$ 478,857</u>	<u>\$ 4,598,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
 CLEMSON UNIVERSITY
 PROGRAM REVENUES AND EXPENDITURES
 YEAR ENDING JUNE 30, 2006

	Supply Chain, Optimization and Logistics					Urban Ecology and Restoration				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	-	-	-	-	-	-	-	-
Total contribution revenue	-	-	-	-	-	-	-	-	-	-
Investment Income										
Realized gain	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	-	-	-	-	-	-	-
Endowment income	-	-	-	-	-	-	-	-	-	-
Total investment income	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	-	-	-
Program net income	-	-	-	-	-	-	-	-	-	-
Cumulative Program Net Income										
Beginning	-	-	-	-	-	-	-	-	-	-
Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Advanced Fiber-Based Materials					Molecular Nutrition				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ 2,800,000	\$ -	\$ -	\$ -	\$ 2,800,000	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	2,897,165	-	-	2,897,165	-	-	-	-	-
Total contribution revenue	<u>2,800,000</u>	<u>2,897,165</u>	<u>-</u>	<u>-</u>	<u>5,697,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income										
Realized gain	-	-	-	38	38	-	-	-	-	-
Unrealized gain	-	-	-	75,971	75,971	-	-	-	-	-
Endowment income	-	-	-	7,079	7,079	-	-	-	-	-
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,088</u>	<u>83,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,800,000</u>	<u>2,897,165</u>	<u>-</u>	<u>83,088</u>	<u>5,780,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Program net income	2,800,000	2,897,165	-	83,088	5,780,253	-	-	-	-	-
Cumulative Program Net Income										
Beginning	-	-	-	-	-	-	-	-	-	-
Ending	<u><u>\$ 2,800,000</u></u>	<u><u>\$ 2,897,165</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 83,088</u></u>	<u><u>\$ 5,780,253</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLEN
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Total - Clemson University				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue					
State funds	\$ 7,500,000	\$ -	\$ -	\$ -	\$ 7,500,000
Non-state matching funds	-	7,334,330	60,000	-	7,394,330
Total contribution revenue	<u>7,500,000</u>	<u>7,334,330</u>	<u>60,000</u>	<u>-</u>	<u>14,894,330</u>
Investment Income					
Realized gain	-	-	-	91,583	91,583
Unrealized gain	-	-	-	1,964,744	1,964,744
Endowment income	-	-	-	511,534	511,534
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,567,861</u>	<u>2,567,861</u>
 Total revenue	 <u>7,500,000</u>	 <u>7,334,330</u>	 <u>60,000</u>	 <u>2,567,861</u>	 <u>17,462,191</u>
Expenditures					
Personal services	-	-	-	49,340	49,340
Fringe	-	-	-	11,240	11,240
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,580</u>	<u>60,580</u>
Program net income	7,500,000	7,334,330	60,000	2,507,281	17,401,611
Cumulative Program Net Income					
Beginning	9,160,000	9,460,000	-	2,089,119	20,709,119
Ending	<u><u>\$ 16,660,000</u></u>	<u><u>\$ 16,794,330</u></u>	<u><u>\$ 60,000</u></u>	<u><u>\$ 4,596,400</u></u>	<u><u>\$ 38,110,730</u></u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Proteomics				Neurosciences					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550,000	\$ -	\$ -	\$ -	\$ 550,000
Non-state matching funds	-	40,000	-	-	40,000	-	550,000	-	-	550,000
Total contribution revenue	-	40,000	-	-	40,000	550,000	550,000	-	-	1,100,000
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	47,951	47,951	-	-	-	67,105	67,105
Endowment income	-	-	-	33,786	33,786	-	-	-	81,085	81,085
Total investment income	-	-	-	81,737	81,737	-	-	-	148,190	148,190
Total revenue	-	40,000	-	81,737	121,737	550,000	550,000	-	148,190	1,248,190
Expenditures										
Personal services	-	-	-	-	-	-	-	154,898	-	154,898
Fringe	-	-	-	-	-	-	-	38,024	-	38,024
Travel	-	-	-	-	-	-	-	8,883	-	8,883
Supplies	-	-	-	-	-	-	-	4,430	-	4,430
Administrative fees	-	2,000	-	11,288	13,288	-	27,500	-	17,070	44,570
Other	-	-	-	-	-	-	-	42,521	-	42,521
Total expenditures	-	2,000	-	11,288	13,288	-	27,500	248,756	17,070	293,326
Program net income	-	38,000	-	70,449	108,449	550,000	522,500	(248,756)	131,120	954,864
Cumulative Program Net Income										
Beginning	500,000	531,714	-	47,610	1,079,324	1,250,000	-	496,923	117,329	1,864,252
Ending	\$ 500,000	\$ 569,714	\$ -	\$ 118,059	\$ 1,187,773	\$ 1,800,000	\$ 522,500	\$ 248,167	\$ 248,449	\$ 2,819,116

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Marine Genomics				Regenerative Medicine					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Non-state matching funds	-	-	-	-	-	-	-	-	-	-
Total contribution revenue	-	-	-	-	-	1,500,000	-	-	-	1,500,000
Investment Income										
Realized gain (loss)	-	-	-	127,175	127,175	-	-	-	-	-
Unrealized gain	-	-	-	45,111	45,111	-	-	-	54,572	54,572
Endowment income	-	-	-	112,986	112,986	-	-	-	45,658	45,658
Total investment income	-	-	-	285,272	285,272	-	-	-	100,230	100,230
Total revenue	-	-	-	285,272	285,272	1,500,000	-	-	100,230	1,600,230
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	20,469	20,469	-	-	-	11,796	11,796
Other	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	20,469	20,469	-	-	-	11,796	11,796
Program net income	-	-	-	264,803	264,803	1,500,000	-	-	88,434	1,588,434
Cumulative Program Net Income										
Beginning	1,500,000	1,475,000	-	152,868	3,127,868	-	-	-	-	-
Ending	\$ 1,500,000	\$ 1,475,000	\$ -	\$ 417,671	\$ 3,392,671	\$ 1,500,000	\$ -	\$ -	\$ 88,434	\$ 1,588,434

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
 MEDICAL UNIVERSITY OF SOUTH CAROLINA
 PROGRAM REVENUES AND EXPENDITURES
 YEAR ENDING JUNE 30, 2006**

	Translational Cancer Therapeutics					Drug Discovery in Cancer				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,500,000	\$ -	\$ -	\$ -	\$ 4,500,000
Non-state matching funds	-	-	-	-	-	-	247,161	-	-	247,161
Total contribution revenue	-	-	-	-	-	4,500,000	247,161	-	-	4,747,161
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	330,110	330,110	-	-	-	91,851	91,851
Endowment income	-	-	-	302,408	302,408	-	-	-	139,824	139,824
Total investment income	-	-	-	632,518	632,518	-	-	-	231,675	231,675
Total revenue	-	-	-	632,518	632,518	4,500,000	247,161	-	231,675	4,978,836
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	74,467	74,467	-	-	-	33,798	33,798
Other	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	74,467	74,467	-	-	-	33,798	33,798
Program net income	-	-	-	558,051	558,051	4,500,000	247,161	-	197,877	4,945,038
Cumulative Program Net Income										
Beginning	5,000,000	1,922,802	-	636,627	7,559,429	-	1,100,430	-	50,634	1,151,064
Ending	\$ 5,000,000	\$ 1,922,802	\$ -	\$ 1,194,678	\$ 8,117,480	\$ 4,500,000	\$ 1,347,591	\$ -	\$ 248,511	\$ 6,096,102

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Gastrointestinal Cancer Diagnostics				Vision Science					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ 2,363,303	\$ -	\$ -	\$ -	\$ 2,363,303	\$ 3,029,799	\$ -	\$ -	\$ -	\$ 3,029,799
Non-state matching funds	-	1,350,000	305,809	-	1,655,809	-	1,441,196	28,527	-	1,469,723
Total contribution revenue	2,363,303	1,350,000	305,809	-	4,019,112	3,029,799	1,441,196	28,527	-	4,499,522
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	(30)	(30)
Unrealized gain	-	-	-	50,953	50,953	-	-	-	(385)	(385)
Endowment income	-	-	-	58,042	58,042	-	-	-	617	617
Total investment income	-	-	-	108,995	108,995	-	-	-	202	202
Total revenue	2,363,303	1,350,000	305,809	108,995	4,128,107	3,029,799	1,441,196	28,527	202	4,499,724
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	67,500	15,184	16,019	98,703	-	32,327	1,437	67	33,831
Other	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	67,500	15,184	16,019	98,703	-	32,327	1,437	67	33,831
Program net income	2,363,303	1,282,500	290,625	92,976	4,029,404	3,029,799	1,408,869	27,090	135	4,465,893
Cumulative Program Net Income										
Beginning	-	617,500	55,902	8,860	682,262	-	-	83,923	-	83,923
Ending	\$ 2,363,303	\$ 1,900,000	\$ 346,527	\$ 101,836	\$ 4,711,666	\$ 3,029,799	\$ 1,408,869	\$ 111,013	\$ 135	\$ 4,549,816

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Clinical Effectiveness and Patient Safety					Total - Medical University of South Carolina				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,943,102	\$ -	\$ -	\$ -	\$ 11,943,102
Non-state matching funds	-	-	-	-	-	-	3,628,357	334,336	-	3,962,693
Total contribution revenue	-	-	-	-	-	11,943,102	3,628,357	334,336	-	15,905,795
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	127,145	127,145
Unrealized gain	-	-	-	-	-	-	-	-	687,268	687,268
Endowment income	-	-	-	-	-	-	-	-	774,406	774,406
Total investment income	-	-	-	-	-	-	-	-	1,588,819	1,588,819
Total revenue	-	-	-	-	-	11,943,102	3,628,357	334,336	1,588,819	17,494,614
Expenditures										
Personal services	-	-	-	-	-	-	-	154,898	-	154,898
Fringe	-	-	-	-	-	-	-	38,024	-	38,024
Travel	-	-	-	-	-	-	-	8,883	-	8,883
Supplies	-	-	-	-	-	-	-	4,430	-	4,430
Administrative fees	-	-	-	-	-	-	129,327	16,621	184,974	330,922
Other	-	-	-	-	-	-	-	42,521	-	42,521
Total expenditures	-	-	-	-	-	-	129,327	265,377	184,974	579,678
Program net income	-	-	-	-	-	11,943,102	3,499,030	68,959	1,403,845	16,914,936
Cumulative Program Net Income										
Beginning	-	-	-	-	-	8,250,000	5,647,446	636,748	1,013,928	15,548,122
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,193,102	\$ 9,146,476	\$ 705,707	\$ 2,417,773	\$ 32,463,058

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Nanostructures				Brain Imaging					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	205,396	75,000	-	280,396	-	779,889	-	-	779,889
Total contribution revenue	-	205,396	75,000	-	280,396	-	779,889	-	-	779,889
Investment Income										
Realized gain (loss)	-	-	-	53,462	53,462	-	-	-	53,932	53,932
Unrealized gain	-	-	-	50,525	50,525	-	-	-	55,720	55,720
Endowment income	-	-	-	89,301	89,301	-	-	-	34,070	34,070
Total investment income	-	-	-	193,288	193,288	-	-	-	143,722	143,722
Total revenue	-	205,396	75,000	193,288	473,684	-	779,889	-	143,722	923,611
Expenditures										
Personal services	-	-	70,456	30,000	100,456	-	-	-	-	-
Fringe	-	-	2,593	-	2,593	-	-	-	-	-
Travel	-	-	8,823	-	8,823	-	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-
Advertising	-	-	595	-	595	-	-	-	-	-
Supplies	-	-	5,452	-	5,452	-	-	-	-	-
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Instructional materials	-	-	17,864	-	17,864	-	-	-	-	-
Indirect cost recovery	-	-	3,652	-	3,652	-	-	-	-	-
Employer contributions	-	-	11,274	4,048	15,322	-	-	-	-	-
Administrative fees	-	-	-	19,443	19,443	-	-	-	28,755	28,755
Other	-	-	1,407	-	1,407	-	-	-	-	-
Equipment	-	-	168,963	-	168,963	-	-	-	-	-
Total expenditures	-	-	291,079	53,491	344,570	-	-	-	28,755	28,755
Program net income	-	205,396	(216,079)	139,797	129,114	-	779,889	-	114,967	894,856
Cumulative Program Net Income										
Beginning	1,370,000	1,068,007	229,653	195,396	2,863,056	500,000	602,008	-	40,072	1,142,080
Ending	\$ 1,370,000	\$ 1,273,403	\$ 13,574	\$ 335,193	\$ 2,992,170	\$ 500,000	\$ 1,381,897	\$ -	\$ 155,039	\$ 2,036,936

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Polymer Nanocomposites				Hydrogen Fuel Cell Economy					
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,114,145	\$ -	\$ -	\$ -	\$ 1,114,145
Non-state matching funds	-	103,549	25,000	-	128,549	-	-	367,500	-	367,500
Total contribution revenue	-	103,549	25,000	-	128,549	1,114,145	-	367,500	-	1,481,645
Investment Income										
Realized gain (loss)	-	-	-	13,857	13,857	-	-	-	-	-
Unrealized gain	-	-	-	11,748	11,748	-	-	-	-	-
Endowment income	-	-	-	67,238	67,238	-	-	-	18,497	18,497
Total investment income	-	-	-	92,843	92,843	-	-	-	18,497	18,497
Total revenue	-	103,549	25,000	92,843	221,392	1,114,145	-	367,500	18,497	1,500,142
Expenditures										
Personal services	-	-	4,563	-	4,563	-	-	199,642	-	199,642
Fringe	-	-	-	-	-	-	-	25,243	-	25,243
Travel	-	-	162	2,090	2,252	-	-	28,505	-	28,505
Scholarships	-	-	-	2,000	2,000	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	31,928	-	31,928
Contractual	-	-	-	-	-	-	-	5,239	-	5,239
Fixed charges	-	-	-	-	-	-	-	25,126	-	25,126
Instructional materials	-	-	-	-	-	-	-	-	-	-
Indirect cost recovery	-	-	-	-	-	-	-	-	-	-
Employer contributions	-	-	46	-	46	-	-	-	-	-
Administrative fees	-	-	-	4,995	4,995	-	-	-	-	-
Other	-	-	-	-	-	-	-	5,045	-	5,045
Equipment	-	-	-	-	-	-	-	(790)	-	(790)
Total expenditures	-	-	4,771	9,085	13,856	-	-	319,938	-	319,938
Program net income	-	103,549	20,229	83,758	207,536	1,114,145	-	47,562	18,497	1,180,204
Cumulative Program Net Income										
Beginning	1,192,920	257,806	5,119	24,864	1,480,709	-	-	425,188	-	425,188
Ending	\$ 1,192,920	\$ 361,355	\$ 25,348	\$ 108,622	\$ 1,688,245	\$ 1,114,145	\$ -	\$ 472,750	\$ 18,497	\$ 1,605,392

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Travel and Tourism Technology					Renewable Fuel Cells				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	162,500	-	-	162,500	-	-	-	-	-
Total contribution revenue	-	162,500	-	-	162,500	-	-	-	-	-
Investment Income										
Realized gain (loss)	-	-	-	38,305	38,305	-	-	-	-	-
Unrealized gain	-	-	-	33,899	33,899	-	-	-	-	-
Endowment income	-	-	-	43,414	43,414	-	-	-	-	-
Total investment income	-	-	-	115,618	115,618	-	-	-	-	-
Total revenue	-	162,500	-	115,618	278,118	-	-	-	-	-
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Instructional materials	-	-	-	-	-	-	-	-	-	-
Indirect cost recovery	-	-	-	-	-	-	-	-	-	-
Employer contributions	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	13,887	13,887	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	13,887	13,887	-	-	-	-	-
Program net income	-	162,500	-	101,731	264,231	-	-	-	-	-
Cumulative Program Net Income										
Beginning	600,000	762,500	-	15,209	1,377,709	-	-	-	-	-
Ending	\$ 600,000	\$ 925,000	\$ -	\$ 116,940	\$ 1,641,940	\$ -	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Solid Oxide Fuel Cells					Childhood Neurotherapeutics				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	-	-	-	-	-	-	-	-
Total contribution revenue	-	-	-	-	-	-	-	-	-	-
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	-	-	-	-	-	-	-
Endowment income	-	-	-	-	-	-	-	-	-	-
Total investment income	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Instructional materials	-	-	-	-	-	-	-	-	-	-
Indirect cost recovery	-	-	-	-	-	-	-	-	-	-
Employer contributions	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-	-	-	-	-
Program net income	-	-	-	-	-	-	-	-	-	-
Cumulative Program Net Income										
Beginning	-	-	-	-	-	-	-	-	-	-
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2006**

	Total - University of South Carolina				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue					
State funds	\$ 1,114,145	\$ -	\$ -	\$ -	\$ 1,114,145
Non-state matching funds	-	1,251,334	467,500	-	1,718,834
Total contribution revenue	<u>1,114,145</u>	<u>1,251,334</u>	<u>467,500</u>	<u>-</u>	<u>2,832,979</u>
Investment Income					
Realized gain (loss)	-	-	-	159,556	159,556
Unrealized gain	-	-	-	151,892	151,892
Endowment income	-	-	-	252,520	252,520
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>563,968</u>	<u>563,968</u>
	<u>1,114,145</u>	<u>1,251,334</u>	<u>467,500</u>	<u>563,968</u>	<u>3,396,947</u>
Total revenue					
Expenditures					
Personal services	-	-	274,661	30,000	304,661
Fringe	-	-	27,836	-	27,836
Travel	-	-	37,490	2,090	39,580
Scholarships	-	-	-	2,000	2,000
Advertising	-	-	595	-	595
Supplies	-	-	37,380	-	37,380
Contractual	-	-	5,239	-	5,239
Fixed charges	-	-	25,126	-	25,126
Instructional materials	-	-	17,864	-	17,864
Indirect cost recovery	-	-	3,652	-	3,652
Employer contributions	-	-	11,320	4,048	15,368
Administrative fees	-	-	-	67,080	67,080
Other	-	-	6,452	-	6,452
Equipment	-	-	168,173	-	168,173
Total expenditures	<u>-</u>	<u>-</u>	<u>615,788</u>	<u>105,218</u>	<u>721,006</u>
Program net income	1,114,145	1,251,334	(148,288)	458,750	2,675,941
Cumulative Program Net Income Beginning	3,662,920	2,690,321	659,960	275,541	7,288,742
Ending	<u>\$ 4,777,065</u>	<u>\$ 3,941,655</u>	<u>\$ 511,672</u>	<u>\$ 734,291</u>	<u>\$ 9,964,683</u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
YEAR ENDED JUNE 30, 2006**

Notes to Financial Statements

Note 1. Description of Program

The South Carolina Research Centers of Economic Excellence Act (the Act) was introduced by Chapter 75 of Act No. A356 and passed by the South Carolina General Assembly during the 2002 legislative session. The Act was established to create the South Carolina Centers of Economic Excellence (the Program) and the Centers of Excellence Matching Endowment, which is to be funded annually by appropriations from the South Carolina Education Lottery in an aggregate amount not to exceed \$ 200 million by 2010. In addition, the Act created the Research Centers of Excellence Review Board (the Review Board), which is responsible for awarding state matching funds, for oversight and operation of the fund, and for various accountability requirements established in the statute for the Program. The Review Board consists of nine members. Of these nine members, three must be appointed by the Governor of South Carolina, three must be appointed by the President Pro Tempore of the South Carolina Senate, and three must be appointed by the Speaker of the South Carolina House of Representatives. The Presidents of the senior research universities of the State of South Carolina (Clemson University, the Medical University of South Carolina, and the University of South Carolina) serve as ex-officio non-voting members.

The purpose of the Act is to create incentives for the senior research universities of South Carolina to raise capital from the private sector to fund endowments for professorships in research areas targeted to create well-paying jobs and enhanced economic opportunities for the people of South Carolina. Privately raised funds are used to match dollar-for-dollar funds appropriated by the General Assembly from the South Carolina Education Lottery. The program's intent is to provide \$ 30 million in South Carolina Education Lottery appropriations to be matched by the institutions each fiscal year through the year 2010.

The endowed professorships are awarded to the senior research universities through a competitive application process, and encourage collaboration among the three research universities as well as with other South Carolina institutions of higher education. Awards from the Centers of Excellence Matching Endowment are to be not less than \$ 2 million and not more than \$ 5 million. Privately raised matching funds are to be raised exclusively from sources other than South Carolina tax dollars, and committed and raised subsequent to January 1, 2002. Proviso 5A.27 in Part 1B of the FY 2004 Appropriations Act allows the research institutions to use federal funds received after July 1, 2003 as non-state matching funds.

Note 2. Summary of Significant Accounting Policies

Basis of presentation and method of accounting: The Program's financial statements are presented on the accrual basis of accounting. Revenues are recorded in the period earned, and expenses are recorded at the time liabilities are incurred. Inasmuch as state funds are not disbursed until cash gifts are in hand, a pledge received in support of a Center is not recognized as revenue until the pledge has been satisfied.

Property and equipment: Property and equipment purchased with program funds is deemed to be the property of the respective research institution.

Assets available for program use: State funds committed for Program use are permanently restricted, as well as the first \$ 2 million in non-state matching funds, as each of these funding sources are considered endowment funds. Earnings from the endowments funds may be expended for program purposes, as well as any non-state matching funds that exceed the \$ 2 million endowment requirement.

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

Federal grants used as non-state matching funds: Federal grants used as non-state matching funds by the research institutions are not reflected in the statements of program revenues and expenditures. Such funds are maintained separately from the Program by the research institutions.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
YEAR ENDED JUNE 30, 2006**

Notes to Financial Statements

Note 3. Assets Maintained by Research Institutions

The assets resulting from program activities are maintained by the research institutions, and are held by the universities, their respective foundations, or by the State Treasurer. At June 30, 2006, cash and investments maintained by the research institutions for program purposes was as follows:

Clemson University	\$ 38,110,730
Medical University of South Carolina	32,463,058
University of South Carolina	9,964,683
Total	<u><u>\$ 80,538,471</u></u>

Note 4. Summary of Funded Centers of Economic Excellence

Proposals approved from the FY 2005-2006 General Assembly appropriations are as follows:

<u>Institution</u>	<u>Proposal Title</u>	<u>Proposal Amount</u>
Clemson	Supply Chain, Optimization and Logistics	\$ 2,000,000
Clemson	Urban Ecology and Restoration	2,000,000
Clemson	Advanced Fiber-Based Materials	4,000,000
Clemson	Molecular Nutrition	2,000,000
MUSC/USC/Clemson	Clinical Effectiveness and Patient Safety	5,000,000
MUSC	Molecular Proteomics in Cardiovascular Disease and Prevention	5,000,000
USC	Solid Oxide Fuels	3,000,000
USC/MUSC	Childhood Neurotherapeutics	5,000,000
Total		<u><u>\$ 28,000,000</u></u>

Note: Clinical Effectiveness and Patient Safety and Childhood Neurotherapeutics each were initially approved as \$ 6 million proposals. The programs were subsequently changed to \$ 5 million proposals by the Review Board on October 30, 2006.

State funding has been committed to these proposals, and the respective institutions are eligible to draw down these funds from the South Carolina Commission on Higher Education as qualifying non-state matching funds are received in hand.

Note 5. Changes in Program Policies Adopted Subsequent to Year End

Extension to the Eighteen-Month Pledge Verification Deadline

Prior to February 26, 2007, the institutions have eighteen months from the date a proposal was approved by the Review Board to verify to the Review Board that all pledges were in place. The Program Guidelines did not stipulate the consequences for not meeting the eighteen-month deadline. At the February 26, 2007 Review Board meeting, a policy change was adopted to allow the institutions to petition the Review Board for a six-month extension of the deadline for each proposal, not to exceed two six-month extension periods. If an institution has not verified pledges for a proposal to the Review Board after two six-month extensions, the proposal must be resubmitted to the Review Board and undergo the full review process.

Change in Endowment Requirements for Non-State Matching Funds

At the October 30, 2006 Review Board meeting, a policy change was made to the amount of non-state matching funds required to be deposited into the Endowment for each proposal. Prior to the policy change, the first \$ 2 million of non-state matching funds for each proposal was required to be deposited into the Endowment. As a result of the changes, no less than 40% of non-state matching funds must be deposited into the Endowment.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
YEAR ENDED JUNE 30, 2006**

Notes to Financial Statements

Note 5. Changes in Program Policies Adopted Subsequent to Year End (Continued)

In-Kind Contributions Used as Non-State Matching Funds

At the October 30, 2006 Review Board meeting, a policy change was adopted to allow as non-state matching funds in-kind contributions of real property, equipment, supplies and other expendable property, and the value of goods and services directly benefiting and specifically identifiable to a project or program.

If goods or services are donated to an institution, the institution may claim the fair market value of the goods or services as a 'cash equivalent' match. If goods or services have been sold or provided to the institution at a reduced rate, the institution may claim the reduced rate of the goods or services as a 'cash equivalent' match. In-kind contributions may not account for more than 60% of the non-state match total for each proposal.



DERRICK, STUBBS & STITH, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

508 Hampton Street, 1st Floor • Post Office Box 36
Columbia, South Carolina 29202-0036
Telephone: (803) 799-5810 • Facsimile: (803) 799-5554
www.dsscpa.com

A. David Masters, CPA
Charles R. Statler, Jr., CPA
Alan F. Grimsley, CPA
Hugh R. Penny, CPA, CISA, CBA
H. Warren Counts, Jr. CPA
K. Todd Dailey, CPA, CVA
Timothy M. Monahan, CPA

RSM McGladrey Network
An Independently Owned Member

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

To the Review Board

South Carolina Centers of Economic Excellence
Columbia, South Carolina

We have audited the financial statements of the South Carolina Centers of Economic Excellence for the year ended June 30, 2006, and have issued our report thereon dated June 12, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Carolina Centers of Economic Excellence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Carolina Centers of Economic Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are reported on pages 30 - 33.

This report is intended solely for the information of the Audit Committee, Review Board, management and the South Carolina Budget and Control Board and is not intended to be and should not be used by anyone other than those specified parties.

Derrick, Stubbs & Stith, LLP

June 12, 2007

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Finding #06-1:

Finding: An annual report and independent audit of the Program for the year ending June 30, 2005 was not provided to the South Carolina Budget and Control Board by the Review Board, as required by legislative statute.

Corrective Action Taken:

FROM COEE REVIEW BOARD:

AS PER ANNUAL REPORT: An annual program report was not submitted to the Budget and Control Board for fiscal year 2005. The majority of information in such a report would be gleaned from annual institutional progress reports. The Program *Guidelines* stipulate that these reports be submitted to the Review Board by October 1 following the end of each fiscal year.¹ These reports include notarized disclosure of all financial activity and programmatic progress for each CoEE. The University of South Carolina and the Medical University of South Carolina did not submit annual institutional reports until 2006. Clemson University submitted annual reports for two of five Centers of Economic Excellence in 2004, and three of six Centers of Economic Excellence in 2005. Presently CHE staff is creating a cumulative program report for fiscal years 2003-2006 for submission to the Budget & Control Board.

AS PER INDEPENDENT AUDIT: An annual independent audit of the Program as required under Section 10 of the S.C. Research Centers of Economic Excellence Act did not occur at the end of the 2003 fiscal year. At the August 30, 2004, CoEE Review Board meeting (first meeting of FY 2005), the Review Board expanded the Program operating budget to include an annual audit. The Review Board also formed a formal Audit Committee. On June 1, 2006, the Review Board issued a Request for Proposal to audit the CoEE Program for fiscal years 2003 through 2006, as well as future fiscal years 2007 through 2010.

Finding #06-2:

Finding: Annual institutional reports for the year ended June 30, 2005 were not submitted to the Review Board by the Medical University of South Carolina and the University of South Carolina, as required by Program Guidelines. Clemson University submitted its annual institutional report to the Review Board on November 2, 2005, subsequent to the initial deadline of October 1, 2005 and the thirty day grace period allowed by Program Guidelines.

Corrective Action Taken:

FROM CLEMSON UNIVERSITY: Clemson is establishing a process that specifies internal deadlines for the preparation of financial reports and programmatic progress reports in order to ensure submission of the required reports no later than October 1.

FROM MEDICAL UNIVERSITY OF SOUTH CAROLINA: Due to very limited activity in the initial years of the program, MUSC reported all three years of activity of the program in October of 2006. As activity is now at full pace, MUSC will submit the required reports annually.

¹ In the first year of the Program, guidelines were contained in the *Guidelines for Request for Proposals*. In 2004, the Program *Guidelines* were formally separated from the *Guidelines for Request for Proposals*.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Finding #06-2 (continued):

Corrective Action Taken (continued)

FROM UNIVERSITY OF SOUTH CAROLINA: The University submitted an annual report in October 2006 and will continue to do so each year in accordance with the *Guidelines*.

Finding #06-3:

Finding: One application made by the University of South Carolina for a draw of state funds totaling \$ 1,114,145, did not include evidence of receipt of non-state matching funds (copy of bank statement, CD, etc.), as required by Program Guidelines.

Corrective Action Taken:

FROM COEE REVIEW BOARD: In March 2007, CHE staff developed and implemented a CoEE Drawdown Checklist in order to guarantee that all paperwork required by the Program *Guidelines* is properly submitted to the Review Board prior to the distribution of state funds for any CoEE. [A sample checklist follows at the end of this document.] Checklist Item Eight states: "Photocopies of verifying instruments (bank statements, cancelled checks, appraisal, etc.) of total amount of non-state matching funds being drawn against have been submitted." CHE staff is in the process of collecting documentation for all draw downs found to have insufficient "evidence of the receipt of non-state matching funds."

FROM UNIVERSITY OF SOUTH CAROLINA: The University operated with the receipts on file and made them available to the auditor and staff. No documents were missing or otherwise unavailable for audit. Subsequent drawdown requests have and will continue to have copies available to the staff when the drawdown is submitted.

Finding #06-4:

Finding: Five applications made by the Medical University of South Carolina for draws of state funds totaling \$ 11,943,102 did not include evidence of receipt of non-state matching funds (copy of bank statement, CD, etc.), as required by Program Guidelines.

Corrective Action Taken:

FROM COEE REVIEW BOARD: In March 2007, CHE staff developed and implemented a CoEE Drawdown Checklist in order to guarantee that all paperwork required by the Program *Guidelines* is properly submitted to the Review Board prior to the distribution of state funds for any CoEE. [A sample checklist follows at the end of this document.] Checklist Item Eight states: "Photocopies of verifying instruments (bank statements, cancelled checks, appraisal, etc.) of total amount of non-state matching funds being drawn against have been submitted." CHE staff is in the process of collecting documentation for all draw downs found to have insufficient "evidence of the receipt of non-state matching funds."

FROM MEDICAL UNIVERSITY OF SOUTH CAROLINA: The University operated with all of the required receipts and supporting documents on file. These were made available to the auditor and CHE staff. No documents were missing or otherwise unavailable for audit. The issue is whether every such document should be duplicated and kept in an additional file at CHE. Given this finding, subsequent drawdown requests will provide duplicate copies of appropriate and necessary documentation to the staff and when draw downs are submitted.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Finding #06-5:

Finding: A duplicate reimbursement of program expenses of approximately \$ 40,000 from a CoEE endowment fund was made by the University of South Carolina Educational Foundation to the University of South Carolina for the Nanostructures Center.

Corrective Action Taken:

FROM UNIVERSITY OF SOUTH CAROLINA: The duplicate payment was made from the expendable portion of the endowment, accrued to the benefit of the program and resulted in additional funds being made available to the CoEE Endowed Chair. Procedures are in place to avoid such duplication.

Finding #06-6:

Finding: The Program Guidelines state that the first \$2 million of non-state matching funds must go into a Center of Economic Excellence endowment. There were three Centers at the University of South Carolina (Hydrogen Fuel Cell Economy, Nanostructures and Polymer Nanocomposites) and five Centers at the Medical University of South Carolina (Proteomics, Gastrointestinal Cancer, Vision Science, Neurosciences and Regenerative Medicine) that received non-state matching funds that were not placed into the endowment as required.

Corrective Action Taken:

FROM COEE REVIEW BOARD: On August 28, 2006, the CoEE Review Board voted unanimously to change Section VII, "Eligible Matching Funds," of the Program *Guidelines*. The amendment to Section VII eliminated the need for the **first** \$2 million of non-state matching funds to be placed in endowment. A new requirement was established that prescribed at least \$2 million of non-state match funds *or pledges* must be committed to the endowment prior to the drawing of state funds: "Until official pledges and/or cash contributions are obtained for the \$2 million of matching funds required to go into an endowment, no other State funds may be dispersed." This amendment in turn resulted in textual changes to Section IX, "Condition for the Transfer of State Matching Funds." [relevant text italicized]: "Upon verification by the Review Board of *official pledges and/or cash contributions equal to the \$2 million match that must go into the endowment*, transfer of the State match to the University will be made in increments of not less than \$500,000 in exact amounts of the cash in hand as certified by the institution." These changes to the Program *Guidelines* were implemented (a) to accommodate eligible non-state matches with proscriptions against being placed in endowments (such as federal grants and certain philanthropic donations); and (b) to "allow non-state matching funds to be pledged, received and used for operational costs of a center or endowed professor....", particularly for CoEE's funded at the \$2 million level.

FROM UNIVERSITY OF SOUTH CAROLINA: While pledges meeting the "first \$2 million" requirement for non-state funding were secure for these awards, cash for those pledges had not been realized at the time of the request for state funding, so the draws were based on cash received from other non-endowed federal and private grants to the University. The University understood this practice at the time to be within the meaning of the *Guidelines*; i.e., the "first \$2 million" requirement had been met with pledges. The *Guidelines* were subsequently changed to require 40% of the non-state match in the endowment and better accommodate this understanding. Current university practices are in compliance with current *Guidelines*.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Finding #06-6 (continued):

Corrective Action Taken (continued)

FROM MEDICAL UNIVERSITY OF SOUTH CAROLINA: Some funding was placed in expendable accounts prior to receipt of the full \$2 million in non-state matching funds. However, these were federal grant and designated programmatic dollars which had specific restrictions requiring expenditure prior to receipt of the full non-state matching funds. We believe that more rapid receipt and utilization of grant funds should be encouraged rather than be delayed by the slower receipt of endowment funds. All Centers have met the \$2 million minimum pledge or cash requirement for endowment.

Finding #06-7:

Finding: As required by Program Guidelines, pledges must be secured no later than eighteen months after the approval of a proposal. There was a shortfall of approximately \$ 395,000 in the pledge total for the Optical Materials Center by the pledge deadline of October 27, 2005. The Clemson University Foundation has submitted a certification that the required pledge balance was in place at June 27, 2007.

Corrective Action Taken:

FROM CLEMSON UNIVERSITY: This finding results from a single and unintentional source, which is the result of miscommunication between Clemson University and the Clemson University Foundation. The following points address the single issue:

1. Clemson University's administration incorrectly understood that the Clemson University Foundation had formally approved the Palmetto Challenge in November of 2004 to specifically support various endowed chairs that were noted in letters from Clemson University to CHE. These letters noted "anonymous pledges" from the Palmetto Challenge Fund.
2. Only during the course of the CHE audit did Clemson's administration learn that there had not been a formally executed pledge agreement or memorandum of understanding between CUF and CU to technically create an "open-ended pledge" for these various chairs.
3. Therefore Clemson University's administration is in agreement that there is a technical discrepancy deriving from miscommunication regarding the Palmetto Challenge. Instead of this being an "open-ended pledge," it is a fund established by CUF to provide backing that is equal to the amount of pledges and cash on hand.
4. The Clemson University Foundation and Clemson University's administration resolved the miscommunication and *formal documented pledges are in place to support each of the chairs that were dependent on support from the Palmetto Challenge.*
5. Clemson University's administration and the leadership of the Clemson University Foundation have taken additional steps to create a more formal process of documentation and validation before submitting any letters to CHE. Both CU and CUF have entered into a formal MOU to prevent any future miscommunications.

[INSERT DATE]

CoEE DRAWDOWN CHECKLIST

[from the CoEE Program *Guidelines*]

[INSERT PROPOSAL NAME]

- (1) Proposal has been approved by the Review Board [IX:iii] _____
- (2) Signed original recommendation by the institution governing board which endorses the proposal has been submitted to the Review Board [IX:iii] _____
- (3) Photocopy of the endowed chair's letter of appointment (if hired) has been provided to the Review Board [IX:iv] _____
- (4) Draw down amount request is at least \$100,000 [IX:i] _____
- (5) Signed original Account Set Up Form has been submitted (or was previously submitted) [IX:v] _____
- (6) Signed original letter from the appropriate university foundation CEO "identifying the designated and restricted account" for the program has been submitted (or was previously submitted) [IX:ii] _____
- (7) Signed original Matching Funds Certification & Draw Down Form [revised 3-07] has been submitted [IX:v] _____
- (8) Photocopies of verifying instruments (bank statements, cancelled checks, appraisal, etc.) of total amount of non-state matching funds being drawn against have been submitted [IX:i] _____
- (9) Evidence that the non-state matching funds have been placed in the institution's CoEE fund has been submitted [IX:i] _____
- (10) Evidence that 40% of the total non-state match has been placed in or designated for the endowment has been submitted [IX:i] _____