October 21, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Winthrop University
Rock Hill, South Carolina

This report on the audit of the financial statements of Winthrop University for the fiscal year ended June 30, 1998, was issued by J. W. Hunt & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

WINTHROP UNIVERSITY
ROCK HILL, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
JUNE 30, 1998

WINTHROP UNIVERSITY
ROCK HILL, SOUTH CAROLINA

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June 30, 1998

I. INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Winthrop University as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of Winthrop University are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Winthrop University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, or departments or component units of the State of South Carolina primary government.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Winthrop University at June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 23 to the financial statements, Winthrop University has changed its method of accounting for certain investments.

These financial statements exclude the related entities described in Note 19 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Columbia, South Carolina
September 17, 1998

II. BASIC FINANCIAL STATEMENTS

EXHIBIT A

WINTHROP UNIVERSITY

BALANCE SHEET, JUNE 30, 1998 (WITH COMPARATIVE FIGURES AT JUNE 30, 1997)

ASSETS	1998	1997 (as restated)
CURRENT FUNDS:		
UNRESTRICTED:		
Cash and cash equivalents (Note 17)	$ 2,749,502	$ 1,446,780
Accounts receivable:		
Students, net (Note 15)	394,513	462,288
State appropriations (Note 2)	1,911,159	1,670,765
Related parties (Note 19)	190,640	92,365
Other receivables	239,726	201,359
Inventories (Note 13)	293,314	326,771
Prepaid items	294,381	266,128
Accrued interest receivable	7,191	9,364
Due from other funds (Note 14)	611,147	746,553
Total unrestricted	6,691,573	5,222,373
RESTRICTED:		
Cash and cash equivalents (Notes 14, 17)	20,696	(470,048)
Federal grants and contracts receivable	452,219	484,701
Other grants and contracts receivable	88,128	330,032
Accrued interest receivable	10,995	15,411
Prepaid items	4,355	673
Total restricted	576,393	360,769
Total current funds	$ 7,267,966	$ 5,583,142
LOAN FUNDS:		
Cash and cash equivalents (Notes 14, 17)	181,498	$ 178,787
Federal grants and contracts receivable	65,985	55,409
Loan interest receivable	62,322	54,903
Loans to students, net (Note 15)	2,310,008	2,286,334
Total loan funds	$ 2,619,813	$ 2,575,433

LIABILITIES AND FUND BALANCES	1998	1997 (as restated)
CURRENT FUNDS:		
UNRESTRICTED:		
Accounts payable	$ 637,579	$ 424,202
Accrued interest payable (Note 8)	42,538	66,570
Accrued payroll and related liabilities	2,342,409	2,157,176
Unearned student revenues	323,932	502,286
Student deposits	414,998	377,517
Accrued compensated absences and related liabilities	1,538,791	1,555,976
Fund balance	1,391,326	138,646
Total unrestricted	6,691,573	5,222,373
RESTRICTED:		
Accounts payable	157,873	7,972
Accrued payroll and related liabilities	55,671	71,612
Due to other funds (Note 14)	157,952	-
Fund balances:		
Grants and contracts	68,520	147,243
Scholarships and student aid	136,377	133,942
Total restricted	576,393	360,769
Total current funds	$ 7,267,966	$ 5,583,142
LOAN FUNDS:		
Accounts payable	$ 2,462	$ 61
Fund balances:		
U.S. Government grants refundable	2,558,308	2,516,274
University funds - restricted	59,043	59,098
Total loan funds	$ 2,619,813	$ 2,575,433

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
BALANCE SHEET, JUNE 30, 1998 (WITH COMPARATIVE FIGURES AT JUNE 30, 1997)

ASSETS	1998	1997 (as restated)
ENDOWMENT AND SIMILAR FUNDS:		
Cash and cash equivalents (Note 17)	$ 683,335	$ 678,418
Total endowment and similar funds	$ 683,335	$ 678,418
PLANT FUNDS:		
UNEXPENDED:		
Cash and cash equivalents (Note 17)	$ 1,378,643	$ 223,579
Capital improvement bond proceeds receivable (Note 3)	10,688,404	14,024,223
Capital project funds receivable	1,000,000	-
Accrued interest receivable	2,453	5,144
Total unexpended	13,069,500	14,252,946
RETIREMENT OF INDEBTEDNESS:		
Cash and cash equivalents (Note 17)	1,289,628	1,540,852
Accrued interest receivable	15,873	27,478
Accrued commission receivable	10,978	-
Total retirement of indebtedness	1,316,479	1,568,330
INVESTMENT IN PLANT:		
Land and improvements	1,131,020	1,131,020
Buildings	68,585,616	64,144,558
Furniture, fixtures and equipment (Note 1, 8)	15,474,123	15,002,164
Library books	8,433,310	8,102,270
Construction in progress (Note 16)	6,020,074	3,822,121
Total investment in plant	99,644,143	92,202,133
Total plant funds	$ 114,030,122	$ 108,023,409
AGENCY FUNDS:		
Cash and cash equivalents (Note 17)	$ 21,528	$ 45,304
Total agency funds	$ 21,528	$ 45,304

LIABILITIES AND FUND BALANCES	1998	1997 (as restated)
ENDOWMENT AND SIMILAR FUNDS:		
Fund balance:		
Endowment - restricted	$ 428,302	$ 423,385
Quasi endowment - restricted	255,033	255,033
Total endowment and similar funds	$ 683,335	$ 678,418
PLANT FUNDS:		
UNEXPENDED:		
Accounts payable	$ 1,805,919	$ -
Retainage payable	201,318	18,106
Fund balances: (Note 9)		
Unrestricted	441,644	312,257
Restricted	10,620,619	13,922,583
Total unexpended	13,069,500	14,252,946
RETIREMENT OF INDEBTEDNESS:		
Accrued interest payable	96,908	101,663
Due to other funds (Note 14)	453,195	746,553
Fund balances - restricted	766,376	720,114
Total retirement of indebtedness	1,316,479	1,568,330
INVESTMENT IN PLANT:		
Notes payable (Note 6)	1,658,494	1,964,598
Bonds payable (Note 5)	3,515,161	3,225,000
Installment purchase program payable (Note 8)	2,709,091	887,600
Net investment in plant	91,761,397	86,124,935
Total investment in plant	99,644,143	92,202,133
Total plant funds	$ 114,030,122	$ 108,023,409
AGENCY FUNDS:		
Deposits held for others	$ 21,528	$ 45,304
Total agency funds	$ 21,528	$ 45,304

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

EXHIBIT B

WINTHROP UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES, FOR THE YEAR ENDED JUNE 30, 1998 (WITH TOTALS FOR THE YEAR ENDED JUNE 30, 1997)

	Current Funds				Plant Funds			Totals for the Year Ended June 30, (Memorandum Only)	
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	1998	1997 (as restated)
REVENUES AND OTHER ADDITIONS:									
Unrestricted current fund revenues	$ 51,760,264	$ -	$ -	$ -	$ -	$ -	$ -	$ 51,760,264	$ 49,993,284
State capital improvement appropriations	-	-	-	-	1,000,000	-	-	1,000,000	6,750,000
Federal grants and contracts-restricted	-	14,466,082	37,064	-	-	-	-	14,503,146	13,211,590
State appropriations-restricted	-	844,331	-	-	-	-	-	844,331	841,146
State grants and contracts-restricted	-	1,636,528	-	-	-	-	-	1,636,528	1,517,361
Local grants and contracts-restricted	-	79,700	-	-	-	-	-	79,700	124,272
Private gifts, grants and contracts-restricted	-	551,534	-	4,917	24,000	-	7,223	587,674	464,963
Interest income-restricted	-	-	6,809	-	14,260	130,885	-	151,954	201,748
Endowment income - restricted	-	63,549	-	-	-	-	-	63,549	59,972
Interest on loan receivable - restricted	-	-	46,953	-	-	-	-	46,953	54,921
U.S. Government advances - restricted	-	-	13,041	-	-	-	-	13,041	7,588
Expended for plant facilities (including $2,407,911 charged to current funds expenditures)	-	-	-	-	-	-	9,045,930	9,045,930	3,008,066
Retirement of indebtedness (including $610,934 charged to current funds expenditures)	-	-	-	-	-	-	1,253,703	1,253,703	1,597,761
College store commissions	-	-	-	-	-	182,137	-	182,137	-
Student tuition and fees	-	-	-	-	-	862,053	-	862,053	845,632
Other additions	-	-	4,551	-	7,500	3,217	-	15,268	7,650
Other	-	-	-	-	3,634	34,373	-	38,007	20,527
Total revenues and other additions	51,760,264	17,641,724	108,418	4,917	1,049,394	1,212,665	10,306,856	82,084,238	78,706,481
EXPENDITURES AND OTHER DEDUCTIONS:									
Educational and general expenditures	42,099,180	17,596,218	-	-	-	-	-	59,695,398	58,105,725
Auxiliary enterprises expenditures	7,824,487	-	-	-	-	-	-	7,824,487	7,743,413
Indirect cost recoveries remitted to the State General Fund	45,154	-	-	-	-	-	-	45,154	49,224
Indirect costs recovered	-	70,270	-	-	-	-	-	70,270	43,712
Refunded to grantors	-	51,524	-	-	-	-	-	51,524	12,248
Loan cancellations and write-offs	-	-	40,070	-	-	-	-	40,070	25,669
Administrative and collection costs	-	-	30,716	-	-	-	-	30,716	37,836
Expended for plant facilities (including noncapitalized expenditures of $248,476	-	-	-	-	8,050,297	-	-	8,050,297	1,357,311
Retirement of indebtedness	-	-	-	-	-	641,802	-	641,802	1,064,406
Interest and executory fees on indebtedness	-	-	-	-	-	298,941	-	298,941	314,593
Disposal of plant facilities	-	-	-	-	-	-	1,611,144	1,611,144	475,814
Other	-	-	-	-	-	-	1,950	1,950	-
Total expenditures and other deductions	49,968,821	17,718,012	70,786	-	8,050,297	940,743	1,613,094	78,361,753	69,229,951

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES, FOR THE YEAR ENDED JUNE 30, 1998 (WITH TOTALS FOR THE YEAR ENDED JUNE 30, 1997)

	Current Funds			Endowment and Similar Funds	Plant Funds			Totals for the Year Ended June 30, (Memorandum Only)	
	Unrestricted	Restricted	Loan Funds		Unexpended	Retirement of Indebtedness	Investment in Plant	1998	1997 (as restated)
TRANSFERS AMONG FUNDS - ADDITIONS/ (DEDUCTIONS)									
Mandatory:									
Principal and interest	$ (4,704,886)	$ -	$ -	$ -	$ -	$ 4,704,886	$ -	$ -	$ -
Loan fund matching grants	(4,347)	-	4,347	-	-	-	-	-	-
Nonmandatory: (Note 8)									
Transfer of funds for capital projects	(500,000)	-	-	-	500,000	-	-	-	-
Transfers from funds for retirement of indebtedness to unrestricted current funds	4,670,470	-	-	-	-	(4,670,470)	-	-	-
Transfer between plant funds	-	-	-	-	3,319,326	(260,076)	(3,059,250)	-	-
Total transfers	(538,763)	-	4,347	-	3,819,326	(225,660)	(3,059,250)	-	-
NET INCREASE (DECREASE) FOR THE YEAR	1,252,680	(76,288)	41,979	4,917	(3,181,577)	46,262	5,634,512	3,722,485	9,456,003
BEGINNING FUND BALANCE - JULY 1, 1997 AS RESTATED (NOTE 23)	138,646	281,185	2,575,372	678,418	14,243,840	720,114	86,124,935	104,762,510	95,276,680
ENDING FUND BALANCE - JUNE 30, 1998	$ 1,252,680	$ (76,288)	$ 41,979	$ 4,917	$ (3,181,577)	$ 46,262	$ 5,634,512	$ 3,722,485	$ 9,456,003

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

EXHIBIT C

WINTHROP UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998 (WITH TOTALS FOR THE YEAR ENDED JUNE 30, 1997)

	1998			1997
	Unrestricted	Restricted	Total	Total (as restated)
Revenues:				
Student tuition and fees	$ 18,822,392	$ -	$ 18,822,392	$ 18,072,505
State appropriations (Note 2)	21,092,103	-	21,092,103	20,238,031
Federal grants and contracts	70,270	14,423,377	14,493,647	13,217,741
State appropriations-restricted	-	844,331	844,331	841,146
State grants and contracts (Notes 2 and 20)	-	1,636,463	1,636,463	1,535,615
Local grants and contracts	-	79,070	79,070	123,564
Private gifts, grants, and contracts	214,055	549,428	763,483	654,365
Interest income	64,113	-	64,113	59,899
Endowment income	-	63,549	63,549	59,971
Sales and services of educational departments	1,382,637	-	1,382,637	1,453,564
Sales and services of auxiliary enterprises	9,266,157	-	9,266,157	9,030,301
Sales and services of athletic and related events	404,324	-	404,324	525,749
Sales by student organizations	56,964	-	56,964	51,878
Payment plan fees	98,523	-	98,523	90,385
Other sources	288,726	-	288,726	308,176
Total current revenues	51,760,264	17,596,218	69,356,482	66,262,890
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	17,726,129	388,380	18,114,509	17,864,573
Research	25,665	208,857	234,522	296,277
Public service	1,174,266	1,966,836	3,141,102	3,191,970
Academic support	4,815,383	3,950	4,819,333	4,882,448
Student services	5,005,174	320	5,005,494	4,768,954
Institutional support	5,471,886	-	5,471,886	5,502,534
Operation and maintenance of plant	4,780,787	-	4,780,787	4,717,148
Scholarships and fellowships	3,099,890	15,027,875	18,127,765	16,881,821
Total educational and general expenditures	42,099,180	17,596,218	59,695,398	58,105,725
Mandatory transfers for:				
Loan fund matching grants	4,347	-	4,347	2,529
Total mandatory transfers	4,347	-	4,347	2,529
Total educational and general	42,103,527	17,596,218	59,699,745	58,108,254

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998 (WITH TOTALS FOR THE YEAR ENDED JUNE 30, 1997)

	1998 Unrestricted	1998 Restricted	1998 Total	1997 Total (as restated)
Expenditures and mandatory transfers (Continued):				
Auxiliary enterprises:				
Housing expenditures	$ 4,430,290	$ -	$ 4,430,290	$ 4,529,774
Health services expenditures	645,210	-	645,210	610,963
Food service expenditures	2,267,567	-	2,267,567	2,019,124
Vending expenditures	481,420	-	481,420	583,552
Total auxiliary enterprises expenditures	7,824,487	-	7,824,487	7,743,413
Mandatory transfers for principal and interest	4,704,886	-	4,704,886	4,474,929
Total auxiliary enterprises	12,529,373	-	12,529,373	12,218,342
Total expenditures and mandatory transfers	54,632,900	17,596,218	72,229,118	70,326,596
Other transfers and additions/(deductions):				
Nonmandatory transfers in	4,670,470	-	4,670,470	4,271,688
Nonmandatory transfers out	(500,000)	-	(500,000)	(41,559)
Transfer of debt representing proceeds used for plant additions	-	-	-	476,000
Excess (deficiency) of restricted receipts over transfers to revenues	-	(24,764)	(24,764)	(105,659)
Refunded to grantors	-	(51,524)	(51,524)	(12,248)
Indirect cost recoveries remitted to the State General Fund	(45,154)	-	(45,154)	(49,224)
Total other transfers and additions	4,125,316	(76,288)	4,049,028	4,538,998
Net increase (decrease) in fund balances	$ 1,252,680	$ (76,288)	$ 1,176,392	$ 475,292

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Winthrop University (the "University") conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Audits of Colleges and Universities Industry Audit Guide* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard-setting body for GAAP for all state governmental entities including colleges and universities. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The University has determined it has no component units and the financial reporting entity includes only the University (a primary entity).

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) Determines its budget without another government's having the authority to approve and modify that budget.

(2) Levies taxes or sets rates or charges without approval by another government.

(3) Issues bonded debt without approval by another government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the University (a primary entity).

The University is a State-supported, co-educational 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 59-125-10 of the Code of Laws of South Carolina. The University's campus is located in Rock Hill, 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 of the State and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of the Governor and the State Superintendent of Education, or their designees, who are members ex officio; seven other members, each elected by the joint vote of the General Assembly; two graduates of the University to be appointed by the Winthrop University Alumni Association; and one at-large trustee appointed by the Governor. The Chair of the Faculty Conference and the President of the Student Government Association serve as invited members without voting rights. The Board is responsible for the scope of educational programs, policy or eligibility for enrollment, and other policy matters. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

when the endowment agreement requires the income to be added to the corpus. If there is income
to be added to corpus, the University records a mandatory transfer to move these monies to the endowment fund group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The **Current Funds** group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained in the unrestricted current funds for auxiliary enterprises operations. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing, food services, student health services, and vending (which includes student long-distance telephone services and the bookstore). The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was $1,466,235 at June 30, 1998.

The Loan Funds group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and collectibility reserves, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers. The University has $25,000 on deposit with the United Student Aid Funds, Inc., as an guarantee against student loan defaults. This loan participation deposit is included in the balance sheet as cash and cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

The **Endowment and Similar Funds** group includes endowment funds and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term “principal” is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

The **Plant Funds** group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources (and any debt related to unexpended resources) to finance major repair and renovation projects, to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University’s plant funds as revenue.

The **Agency Funds** group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Use of Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to government sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. For fiscal year 1998, the University did not retain any indirect cost recoveries.

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 maximum of 180 days sick leave and of 45 days annual vacation leave. This policy also applies to 12-month faculty and 9-month staff, whereas part-time faculty are not entitled to sick or annual leave benefits. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave.

The compensated absences liability includes accrued annual leave and compensatory holiday and 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 for which the employer expects to compensate employees through paid time off or cash payments. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired prior to June 30, 1981, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to June 30, 1981, are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the downpayment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable educational and general expenditure categories of the current funds group as the installments are paid.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Plant (Continued)

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University, which reports these assets as land improvements and values them at cost.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions to plant assets and qualifying equipment with a unit value in excess of $500 and a useful life in excess of one year. Construction expenditures are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup.

When construction projects are substantially complete and ready for use, construction in progress costs are reclassified to the appropriate plant asset accounts.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. The values of library materials are removed annually at average cost per general type of library media. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do include such interest costs. The University had no interest cost qualifying for capitalization in fiscal 1998.

Unearned Student Revenues

In unrestricted current funds, unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

Student Deposits

Student deposits represent dormitory room and apartment deposits, admission deposits and security deposits for possible room damage. 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 terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational Departments Revenue

Revenues from sales and services of educational departments 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 public service activities.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of prepaid insurance, maintenance and service agreements, travel reservations/deposits, and library periodicals.

Cash and Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

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 17.

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. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to the University's account at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily interest receivable to the total income receivable of 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 University’s percentage ownership in the pool.

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

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 that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup. The University had no rebatable arbitrage for the periods presented.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Amounts and Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of Exhibit B present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except expenditure reimbursements.

Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all the information necessary for a fair presentation of financial position and operations in accordance with generally accepted accounting principles.

NOTE 2 - STATE APPROPRIATIONS

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 section 18L of Part IA of the 1997-98 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, 1998:

Original Appropriation	$ 19,359,642
State Budget and Control Board Allocation for	
Employee Base Pay Increases and Related Employee Benefits	342,936
Performance Funding	101,350
Appropriation Allocations from the State Commission on Higher Education:	
For Access and Equity Desegregation Funding	7,520
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1996 Joint Resolution)	1,040,261
Revised Appropriations - Legal Basis	20,851,709
Accrued Funding for Net Payroll Accrual Adjustments	240,394
State Appropriations Revenue - Accrual Basis - unrestricted current funds	$ 21,092,103

NOTE 2 - STATE APPROPRIATIONS (Continued)

The University received $841,000 of state appropriations revenue in 1997 for higher education grant/scholarship funding which was reported in the Unrestricted Current Fund. For 1998, the Restricted Current Fund reports $844,331 of this type funding.

Through the Commission on Higher Education in fiscal year 1998, the University received higher education grant/scholarship funds of $179,476 or Palmetto Fellows Scholarships and $664,855 from the Children's Education Endowment Fund for need - based student grants. The University reports these funds as state appropriations revenue in restricted current funds.

Certain of the University's payroll expenditures are funded from State General Fund appropriations. The "state appropriations receivable" reported in unrestricted current funds represents monies due from the State General Fund for applicable University personal services and employer contributions expenditures accrued at June 30 but paid in July from 1998-99 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

The University was allocated approximately $1,065,408 of Education Improvement Act Funds for the University's Teacher Recruitment Program. These funds are reported as state grants and contracts revenue in restricted current funds. The University was also allocated approximately $122,500 for its Eisenhower Math and Science Program from the State Department of Education. These funds are reported as federal grants and contracts revenue in the restricted current funds.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In 1998 and prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable."

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (Continued)

A summary of the activity in the balances available from these authorizations during the year ended June 30, 1998, follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
646 of 1978	$ 269,750	$ 269,676	$ -	$ 74
538 of 1986	3,558,000	3,555,364	-	2636
646 of 1978 Division of General Services	1,216,675	1,210,345	6,330	-
522 of 1992	15,272,000	8,006,817	3,329,489	3,935,694
111 of 1997	6,750,000	-	-	6,750,000
Total	$27,066,425	$13,042,202	$3,335,819	$10,688,404

The University is not obligated to repay these funds to the State. The amount authorized in 1992 will be available in increments through June 1999. The amount authorized in 1997 is for additional construction of the Sims Science Building. Funding is available as expenditures are made.

NOTE 4 - ACCOUNT RECEIVABLE - OTHER RECEIVABLES

Other receivables as of June 30, 1998, is summarized as follows:

Summer Camp	$ 72,587
Conference Center	62,779
Contract Courses	61,006
Other	43,354
Total	$239,726

NOTE 5 - BONDS PAYABLE

At June 30, 1998, bonds payable consisted of the following:

	Interest Rates	Maturity Dates	June 30, 1998 Balance	1999 Maturities
State Institution Bonds				
Series 1991F	5.8-6.1%	3-1-01	$ 350,000	$ 110,000
Series 1993A	4.1-5.2%	3-1-08	2,115,000	165,000
Student and Faculty Housing Revenue Bonds				
Series 1987	8.5-9.0%	4-1-99	300,000	300,000
Auxiliary Facility Revenue Bonds	5.47%	11-1-09	750,161	48,364
Amount Reported in Investment in Plant Funds			$3,515,161	$ 623,364

The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness subgroup of the plant funds group. Tuition and fees paid to the University are restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds.

Revenue received for dormitory and student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The auxiliary enterprises revenues restricted for debt retirement are reflected as mandatory transfers from unrestricted current funds to the retirement of indebtedness subgroup of the plant funds group.

During fiscal 1998, the University issued State Auxiliary Facility Revenue Bonds totaling $810,000. Related bond issue costs were expended as incurred as they were not material. The proceeds of these bonds were used to purchase an off-campus bookstore. Bond principal and interest are payable semiannually.

NOTE 5 - BONDS PAYABLE (Continued)

Amounts including interest required to complete payment of the State Auxiliary Facility Revenue Bond obligations as of June 30, 1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 48,364	$ 40,381	$ 88,745
2000	51,045	37,700	88,745
2001	53,876	34,869	88,745
2002	56,863	31,882	88,745
2003	60,016	28,729	88,745
2004 through 2008	479,997	96,845	576,842
Total obligations	$ 750,161	$ 270,406	$1,020,567

During fiscal 1991 and 1993, the University issued State Institution bonds in the amounts of $1,000,000 and $2,815,000 respectively. Related bond issue costs were expended as incurred as they were not material. The proceeds of these bonds were used to make renovations, improvements, and additions to and furnish University facilities.

The bonds outline certain covenant terms to secure the bonds. For the State Institution bonds the University must maintain its tuition rates and charges at amounts necessary to maintain certain specified earning levels. For the Auxiliary Facility Revenue Bonds and the State Institution bonds, the University must generate net revenues available for debt service of not less than 125% and 100%, respectively, of debt service payments due in each year. State Institution bond covenants require tuition fees sufficient to pay bonds. The University is required to revise the schedule of tuition fees whenever necessary to provide the annual principal and interest requirements of all state institution bonds. There are no requirements for sinking fund contributions.

Beginning March 1, 2003, the State Institution bonds may be redeemed at a premium prior to mandatory redemption and final maturities at the option of the State. The redemption prices for these Bonds range from 102 percent in 2002 to 100 percent in 2004.

There are no other relevant bond covenants or restrictions and there have been no violations of the terms outlined above during fiscal 1998.

All of the University's State Institution bonds and Student and Faculty Housing Revenue bonds are payable in annual installments with semiannual interest payments.

NOTE 5 - BONDS PAYABLE (Continued)

Amounts including interest required to complete payment of the State Institution bond obligations as of June 30, 1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 275,000	$ 123,643	$ 398,643
2000	290,000	110,140	400,140
2001	310,000	95,540	405,540
2002	190,000	79,590	269,590
2003	205,000	70,660	275,660
2004 through 2008	1,195,000	191,450	1,386,450
Total Obligations	$2,465,000	$ 671,023	$3,136,023

During fiscal year 1988, the University issued Student and Faculty Housing Revenue bonds in the amount of $1,400,00. Related bond issue costs, which were immaterial, were expended as incurred. The bond proceeds were used to make renovations, improvements and additions to student housing facilities.

The bond documents outline certain covenant terms to secure the bonds. For the Student and Faculty Housing Revenue bonds, the University must maintain housing rates and charges at amounts necessary to maintain certain specified earning levels. For the Student and Faculty Housing Revenue bonds, the University must generate net revenues available for debt service of not less than 125 percent of debt service payments due in each bond year.

In addition, the University must establish and maintain various funds with a trustee for payment of principal and interest and replacement of property, plant and equipment for its Student and Faculty Housing Revenue bonds.

Sinking fund contributions for the Student Housing Revenue bonds began in fiscal year 1988 and end in fiscal year 1999 and range from $127,850 to $325,500. The University's debt service reserve requirements and balance at June 30, 1998, consisted of the following:

Bond	Required Amount	Actual Balance
Student Housing Revenue Bonds of 1987	$325,500	$327,141

During the year ended June 30, 1998, the University made state institution bond principal payments of $260,000. It also reported interest expenditures of $136,087 and $2,988 of executory fee expenditures related to these bonds.

NOTE 5 - BONDS PAYABLE (Continued)

The Student Housing Revenue Bonds may be redeemed at any time prior to the mandatory redemption dates and final maturities at the option of the University. The redemption price for these Bonds is 100 percent.

There are no other relevant Bond covenants or restrictions and there have been no violations of the terms outlined above during fiscal 1998.

Amounts including interest required to complete payment of the student housing revenue bond obligations as of June 30, 1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 300,000	$ 25,500	$ 325,500

During the year ended June 30, 1998, the University made student and faculty housing revenue bond principal payments of $200,000. It also reported interest expenditures of $43,500 and $751 of executory fee expenditures related to these bonds.

NOTE 6 - NOTES PAYABLE

At June 30, 1998, notes payable consisted of the following:

	Interest Rates	Maturity Dates	June 30, 1998 Balance	1999 Maturities
State of South Carolina Note (Athletic Facilities) Series 1981	6.50%	1-1-06	$ 1,315,173	$ 130,019
Bank Note (8/96)	5.05%	8-1-01	343,321	92,740
Total			$ 1,658,494	$ 222,759

A special student fee and a special admissions fee on all paid admissions to the athletic facilities are restricted to the payment of principal and interest on the athletic facilities note and are recorded in student tuition and fees revenues in the retirement of indebtedness plant funds subgroup. Interest earnings are also used for the debt service of the athletic facilities note. The bank notes will be repaid from available unrestricted current funds revenues.

Proceeds from the bank note of $476,000, dated October 25, 1996, were used to purchase combination microwave /refrigerator units for dormitory use. The note is collateralized by the units which are recorded in the investment in plant funds subgroup as equipment and valued at

NOTE 6 - NOTES PAYABLE (Continued)

approximately $499,700. The note requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

The athletic facilities note and the bank notes are payable in semiannual and annual installments, respectively, plus interest. Amounts including interest required to complete payment of the note obligations as of June 30, 1998, are as follows:

Athletic Facilities Note

Year Ending June 30,	Principal	Interest	Total
1999	$ 130,019	$ 83,407	$ 213,426
2000	138,608	74,819	213,427
2001	147,764	65,663	213,427
2002	157,525	55,902	213,427
2003	167,930	45,496	213,426
2004 through 2006	573,327	66,953	640,280
Total Obligations	$1,315,173	$ 392,240	$1,707,413

Bank Notes

Year Ending June 30,	Principal	Interest	Total
1999	$ 92,740	$ 16,175	$ 108,915
2000	97,482	11,433	108,915
2001	102,467	6,448	108,915
2002	50,632	1,275	53,857
Total Obligations	$ 343,321	$ 35,331	$ 380,602

The University reported principal and interest expenditures of $121,963 and $91,463, respectively, on the athletic facilities note in fiscal year 1998. On the bank notes, the University reported fiscal year 1998 principal and interest expenditures of $183,174 and $25,829, respectively, in the applicable functional expenditure categories of the unrestricted current funds.

NOTE 7- LEASE AND INSTALLMENT PURCHASE OBLIGATIONS

The University had no capital leases in the current fiscal year. The University is obligated under various operating leases for the use of real property (land, buildings, and office facilities), automobiles, and other equipment. Certain of these leases have terms subject to renewal annually or have expiration dates in 1998.

NOTE 7 - LEASE AND INSTALLMENT PURCHASE OBLIGATIONS (Continued)

During fiscal 1998, the University entered into a noncancelable operating lease for five vehicles having a remaining term of more than one year.

During fiscal 1997, the University entered into a noncancelable operating lease for postage related equipment having a remaining term of more than one year. The University also had one noncancelable operating lease for use of a building and adjacent lot which expired in fiscal 1998. The leases do not provide for rate escalation or renewal options. In the normal course of business, operating leases are generally renewed or replaced by other leases generally payable on a monthly basis.

Total operating lease expenditures in 1998 were $9,271 for real property and $244,554 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

Future commitments for the two operating leases having remaining noncancelable terms in excess of one year as of June 30, 1998, were as follows:

Year Ending June 30,	
1999	$ 33,859
2000	33,859
2001	12,500
Total minimum lease payments	$ 80,218

The University had operating leases for vehicles and equipment with related parties and made payments of $23,450 in fiscal year 1998. Vehicles are leased from the State Budget and Control Board - Division of Operations with the vehicle costs equal to a base cost plus an assessment based on miles driven. The University leased certain equipment from The South Carolina Law Enforcement Division. The lease term expired June, 1998, and required annual lease payments of $2,149.

NOTE 8- INSTALLMENT NOTE PAYABLE

The University is obligated under an installment purchase agreement dated October 1991, for the acquisition of computer equipment. The University entered into an agreement with the State Budget and Control Board - Division of General Services under its Installment Purchases Program for the $2 million loan. The State Treasurer's Office now handles the program and collection of this loan.

The University must make five annual payments of principal plus interest at 7.5% on the $2 million obligation. The first payment was due on the July 1 following the final drawdown from the State. The University received the final draw in August 1993. The University reported principal payments of $427,759 and interest expenditures of $66,570 in fiscal year 1998 in the current funds functional expenditure categories.

NOTE 8- INSTALLMENT NOTE PAYABLE (Continued)

Amounts including interest required to complete payment of the note obligations as of June 30, 1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 459,841	$ 34,488	$ 494,329

Repayments will be made from unrestricted current funds from appropriations, tuition, and fees. The liability for the interest payment due on July 1, 1998, is reported in unrestricted current funds.

The installment note payable is collateralized by computer equipment, software, and networking with a carrying value of approximately $1,926,000. The University expended the remaining funds for minor furniture and equipment costing less than its capitalization policy amount. The asset and the remaining liability for principal payments are reported in the investment in plant funds subgroup.

Proceeds from the bank note of $640,000, bearing interest at 4.69%, dated June 1, 1998, were used to acquire central academic computing equipment. The note is collateralized by the equipment which is recorded in the investment in plant funds subgroup as equipment and valued at approximately $640,000. The note requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

Proceeds from the bank notes of $899,750 and $709,500, both dated June 1, 1998, and bearing interest of 5.11%, were used to acquire campus-wide telephone system equipment and voice and data cabling equipment, respectively. The notes are collateralized by the respective equipment which is recorded in the investment in plant funds subgroup as buildings and valued at approximately $864,000 and $685,000, respectively.

Amounts including interest required to complete payment of the bank note obligations as of June 30, 1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 346,162	$ 112,248	$ 458,410
2000	363,223	95,187	458,410
2001	381,128	77,282	458,410
2002	399,916	58,494	458,410
2003	240,444	38,776	279,220
2004 through 2005	518,377	40,064	558,441
Total Obligations	$2,249,250	$ 422,051	$2,671,301

NOTE 9 - NONMANDATORY INTERFUND TRANSFERS

Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 1998, the University transferred $260,076 for that purpose which is reported as a nonmandatory transfer and the unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. Unexpended balances of specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup.

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, once projects have been approved by the State Budget and Control Board, institutions are authorized to transfer such funds with notification to the State Treasurer.

During the current year, the University transferred $168,629 within the unexpended plant funds subgroup from the general funding accounts to finance specific capital projects.

In addition, during fiscal year 1998, the University recorded operating interfund transfers. A summary of all nonmandatory transfers is as follows:

FUND			
From	To	Amount	Purpose
Retirement of Indebtedness Plant	Unrestricted Current	$4,670,470	Funding for housing operating costs from funds initially pledged for debt service
Unrestricted Current	Unexpended Plant	500,000	Funding for renovations

NOTE 10 - PENSION PLANS

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 of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the 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 annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82% 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 5 years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6% of all compensation. Effective July 1, 1996, the employer contribution rate became 9.616% which included a 1.916% surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ending June 30, 1998, 1997 and 1996 were $1,738,706, $1,402,708, and $1,405,364, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $27,773 in the current fiscal year at the rate of .15% of compensation. In addition, the University paid the employer’s 7.55 percent share ($1,806) of pension costs for employees on educational leave with employees paying $1,435.

NOTE 10 - PENSION PLANS (Continued)

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. 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 5 years service or 25 years credited service regardless of age. In addition, employees who have 5 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 5 years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14% 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% 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% of all compensation. Effective July 1, 1996, the employer contribution rate became 12.616% which, as for the SCRS, included a 1.916% surcharge. The University's actual contributions to the PORS for the years ended June 30, 1998, 1997 and 1996 were $41,121, $34,720, and $34,117, respectively, and equaled the required contributions of 10.3% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $673 and accidental death insurance contributions of $673 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% 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 current funds' functional expenditure categories to which the related salaries 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 retirement 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).

NOTE 10 - PENSION PLANS (Continued)

The Systems do not make separate measurements of assets and pension benefit obligations 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 therefor 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. All required contributions due to the plans were met.

At retirement, employees participating in the SCRS or PORS may 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 and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS 7.55% plus the retiree surcharge of 1.916% from the employer in fiscal year 1998.

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 $552,218 (excluding the surcharge) from the college as employer and $349,850 from its employees as plan members. In addition, the University paid $8,746 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Of the University's total fiscal year 1998 personnel service expenditures of $27,807,224 total covered payroll for the SCRS, PORS and ORP plans were $18,515,451, $336,615, and $5,830,825, respectively. The University's 1998 contributions represented less than 1% of total SCRS and PORS contributions and approximately 5% of ORP contributions. The ratios of the employer and employee contributions to the ORP to the University’s related 1998 covered payroll were 7.55 % and 6%, respectively.

NOTE 11 - 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 postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,000 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of $1,496,011 for the year ended June 30, 1998. As discussed in Note 10, the University paid $472,924 applicable to the 1.916% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 12 - 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 accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 12 - DEFERRED COMPENSATION PLANS (Continued)

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. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its annual financial report.

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

NOTE 13 - INVENTORIES

Inventories for internal use are valued at cost. Inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 1998:

Category	Method	
Central Supply	First-in, first-out	$ 193,109
Fuels	First-in, first-out	68,980
Printing Services	First-in, first-out	21,236
Others	First-in, first-out	9,989
		$ 293,314

NOTE 14 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report deficit cash balances in the State's cash management pool accounts by fund. Deficits may occur due to grants funded on a reimbursement basis. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest.

NOTE 14 - INTERFUND LIABILITIES AND BORROWINGS (Continued)

Individual interfund balances outstanding at June 30, 1998, were as follows:

	Receivable	Payable
Unrestricted Current Funds:		
Restricted Fund	$ 157,952	$ -
Retirement of Indebtedness Plant	453,195	-
Total Unrestricted Current Funds	611,147	-
Restricted Current Funds:		
Unrestricted Current Funds	-	157,952
Retirement of Indebtedness Plant:		
Unrestricted Current Funds	-	453,195
Totals	$ 611,147	$ 611,147

The amount due to unrestricted current funds from retirement of indebtedness plant funds is housing revenues transferred by mandatory transfer to the retirement of indebtedness plant funds that are in excess of the amount required for the student housing revenue bonds debt service.

NOTE 15 - STUDENT LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1998, the allowances for student loans receivable in loan funds and student accounts receivable in unrestricted current funds are valued at $89,183 and $50,596, respectively.

NOTE 16 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant 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 two years at an estimated total cost of approximately $10,956,000. Of the total cost, approximately $3,863,100 is unexpended at June 30, 1998. Of the unexpended balance at June 30, 1998, the University had remaining commitment balances of approximately $7,092,900 with engineering firms, construction contractors, and vendors related to these projects.

NOTE 16 - CONSTRUCTION COSTS AND COMMITMENTS (Continued)

Major capital projects at June 30, 1998, which constitute construction in progress that are to be capitalized when completed are listed below.

Project Title	Estimated Cost	Amount Expended
Math and Science Complex	$16,760,000	$ 6,017,073
Rutledge Computer Lab	30,000	26,462
American Legion Preliminary Land Acquisition	10,000	3,000
Total	$16,800,000	$ 6,046,535

The amount expended includes both noncapitalized project expenditures and capitalized costs. At June 30, 1998, the net difference between expenditures on these projects and construction in progress equals $26,461.

The University anticipates funding these projects out of current resources, current and future bond issues, including capital improvement bonds, private gifts, and student fees.

NOTE 17 - DEPOSITS

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 with or managed by financial institutions with the approval of the State Treasurer's office.

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

Balance Sheet		Footnotes	
Cash and cash equivalents:		Cash on hand	$ 220,593
Current Funds:		Deposits held by State	
Unrestricted	$ 2,749,502	Treasurer	5,143,919
Restricted	20,696	Escrow with bank	935,318
Loan Funds	181,498	Loan participation deposit	25,000
Endowment and Similar Funds	683,335		
Plant Funds:			
Unexpended	1,378,643		
Retirement of indebtedness	1,289,628		
Agency Funds	21,528		
Totals	$6,324,830		$6,324,830

NOTE 17 - DEPOSITS (Continued)

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

As discussed in Note 5, retirement of indebtedness funds include $327,141 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

Other Deposits

The University's other deposits at year-end were entirely covered by federal depository insurance or by collateral held by the University's custodial bank in the University's name. Loan funds includes $25,000 restricted cash for a loan participation deposit.

NOTE 18 - ENDOWMENT AND SIMILAR FUNDS

The endowment and similar funds cash and cash equivalents are placed on deposit with banks protected by federal depository insurance up to the $100,000 limit.

NOTE 19 - 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. They include the Winthrop University Foundation, the Alumni Association of Winthrop University, and the Winthrop University Eagle Club. 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 these related parties.

In conjunction with its implementation of GASB Statement No. 14, and each fiscal year management reviews its relationships with the entities described in this note. The University excludes these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future

NOTE 19 - RELATED PARTIES (Continued)

GASB pronouncements, some or all of these entities may become component units of the University and/or part of the financial reporting entity.

The Winthrop University Foundation was incorporated November 8, 1973, under the laws of South Carolina as an educational and scientific eleemosynary foundation to establish and implement a program of fund-raising to assist in the expansion and improvement of the educational functions of Winthrop University. In the event of dissolution, the assets of the Foundation would be transferred to Winthrop University.

The Alumni Association of Winthrop University was incorporated June 4, 1929, under the laws of South Carolina as an educational, social, fraternal, and eleemosynary foundation to promote the growth, progress, and general welfare of Winthrop University. In the event of dissolution for any cause, the assets of the Association would be transferred to the Board of Directors of The Winthrop University Foundation for the use and benefit of Winthrop University. Effective July 1, 1992, the Association transferred restricted and endowed funds to the Foundation to be managed by it subject to all restrictions and conditions established by the donors of the fund. Effective for fiscal year 1994 and future years, the Association will be accounted for in the Foundation's financial statements as an Agency Fund.

The Foundation has agreed to establish an endowment account of $500,000 for the benefit and use of the Association based on goals and a timetable to be determined, but not later than July 1, 2002. The balance of the endowment account at June 30, 1998, was $50,000. The Association will have unrestricted use of all interest earned on this fund.

The Foundation funds the Association's annual operating budget which was $83,000 for the year ended June 30, 1998. The Foundation administers the "Alumni Annual Giving Program."

The Winthrop University Eagle Club (the Club) was incorporated May 16, 1978, under the laws of South Carolina as an educational, social, and fraternal eleemosynary organization to assist in encouraging the attendance at Winthrop University of prospective students who would be expected to contribute to intercollegiate athletics of the University and to provide financial aid for the advancement of intercollegiate athletics at Winthrop University. The assets of the Club are included in the assets of the Foundation for tax purposes; however, the Club retains full control over such assets.

Various transactions occur between the University and these related entities. The amounts receivable from the related parties have been separately disclosed in the unrestricted current funds assets. The assets, liabilities, and financial operations of these organizations are not included in the accompanying financial statements of Winthrop University. During the year ended June 30, 1998, the University received approximately $507,116 from the Foundation which was restricted for scholarships and which is reported as restricted current funds private gifts revenue and scholarship expenditures. The University also reports as unrestricted current funds approximately $354,500 from the Foundation for alumni/development staff salaries and various unrestricted missions. $149,664 is reported as unrestricted private gifts, grants and contracts. The remaining

NOTE 19 – RELATED PARTIES (Continued)

amount was handled as a reimbursement of alumni/development costs in the unrestricted current fund. The Foundation reimburses the University for various administrative costs. The $190,640 amount is recorded as a receivable in the unrestricted current fund. $38,253 is a contra expense and $152,387 is reported as revenue. The receivables from these organizations include fourth quarter reimbursements. The majority of the remaining receivables are for scholarships. The Foundation also functions as custodian for the Alumni Association's restricted and endowment funds investments. At June 30, 1998, the Foundation held $221,007 for the Alumni Association. These funds are reported on the Foundation's audited financial statements as pooled investments, at cost, and deposits held in custody in agency funds.

NOTE 20 – TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Significant revenues from Education Improvement Act funds of approximately $260,950 were received from the South Carolina State Department of Education and are reported in state grants and contracts revenue in the restricted current funds.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking functions 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 retirement plans 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 retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, and interagency mail service. Significant payments were also made for unemployment and workers' compensation coverage for employees to other agencies. The amounts of 1998 expenditures applicable to these transactions are not readily available.

NOTE 21 - CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 1998 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, which may be due federal grantors, if any, 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 statements.

NOTE 21 - CONTINGENCIES AND LITIGATION (Continued)

The University is from time to time involved in legal proceedings and claims from various parties arising in the normal course of business and covering 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 proceedings is remote, the outcome of the legal proceedings is not expected to have a material adverse effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

The University is a defendant in a lawsuit on behalf of one of its students for alleged injuries. The suit is in the discovery phase. As the claim falls within the coverage of applicable liability insurance, this claim should not materially affect the financial statements of the University.

NOTE 22 - RISK MANAGEMENT

Insurance Coverage

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. 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. Building losses in excess of 80% of replacement cost are not expected to be covered. For property losses and property-related torts, the University's deductible is $250. For other torts there is no deductible.

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 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.)

NOTE 22 - RISK MANAGEMENT (Continued)

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 college 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 and inland marine;
4. Torts;
5. Builders Risk;
6. Natural disasters; and
7. Medical professional liability against covered clinics and their 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. 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 IRF.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees with access to any assets for losses arising from theft or misappropriation. The University also obtains director/officer liability coverage for all directors/officers for wrongful acts that may occur. Policy limit is $2,000,000.

In addition, the University obtains through commercial insurers coverage for losses arising from the following activities:

1. Crime policy for theft, disappearance, and destruction that may occur during the two annual registration periods of 30 days each. Policy limit is $570,000.

2. Coverage for students, teachers, and supervisors registered in the McFeat Early Childhood Program (nursery school, day care center, and kindergarten activities sponsored by the University). Policy limit for accidental medical payments is $25,000.

3. Accident/sickness policies for athletes who are full-time students and for all participants of Winthrop University Academic Camps. Policy limit is $25,000 for accidental medical and $10,000 for accidental death. This policy is intended to cover the deductible portion of NCAA coverage referred to below.

Included as part of its participation fees, the University receives accident insurance coverage for athletes participating in National Collegiate Athletic Association (NCAA) events.

NOTE 22 - RISK MANAGEMENT (Continued)

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the current funds. These expenditures include, and the related liability has been recorded for, probable and reasonably estimable premium adjustments resulting from actual loss experience for workers' compensation coverage. The University is insured for such coverage under a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

In management’s opinion, claim 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.

Self-Insurance

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, underinsurance, and co-insurance to a State or commercial insurer. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1998, based on the requirements of GASB Statement No. *10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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, 1998, and the amount of the loss is reasonable estimable.

As described above, the University does not carry insurance coverage for building losses in excess of 80% of replacement cost and policy deductibles of $250 per occurrence for property losses and property-related tort claims. In addition, complete building contents are not fully covered. The building contents including equipment and supplies are insured for an amount based on the value of the equipment in the building.

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., total destruction of a building and all of its contents, including equipment and supplies) and for certain other risks (i.e., complete University shut down for an indeterminate amount of time due to an earthquake or other natural disaster), it is more economical to manage such risks internally and use a portion of the unrestricted fund balance and rely upon the state and federal government declaring an emergency situation to cover uninsured losses. No uninsured events relating to such self-insurance coverage occurred in fiscal year 1998.

NOTE 23 - ACCOUNTING CHANGE

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this Statement requires the equity position of each fund (and component unit of the reporting entity) that sponsors the pool to be reported as assets in those funds (and component units). The University has restated its beginning fund balances as of July 1, 1997, for changes resulting from adoption of Statement No. 31, which are disclosed in the following schedule.

	Fund Balances - June 30, 1997		
	As Previously Reported	Restatement Adjustment	As Restated
Unrestricted Current Funds	$ 135,465	$ 3,181	$ 138,646
Restricted Current Funds	270,976	10,209	281,185
Loan Funds	2,575,372	-	2,575,372
Endowment and Similar Funds	678,418	-	678,418
Unexpended Plant Funds	14,233,570	1,270	14,234,840
Retirement of Indebtedness/Plant Funds	713,947	6,167	720,114
Investment in Plant Funds	86,124,935	-	86,124,935

III. AUDITORS' COMMENTS

WINTHROP UNIVERSITY

STATUS OF PRIOR YEAR FINDINGS

PAYROLL ACCOUNT RECONCILIATIONS:

We noted that the various payroll related liability accounts were reconciled timely.

FIXED ASSETS:

We located all fixed assets that we selected to physically observe.