

WINTHROP UNIVERSITY
ROCK HILL, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



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INDEPENDENT AUDITOR'S REPORT

September 28, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Winthrop University
Rock Hill, South Carolina

We have audited the accompanying basic financial statements of Winthrop University as of June 30, 2001, 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 auditing standards generally accepted in the United States of America and auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 the 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, departments, funds, or component units of the State of South Carolina primary government. They are not intended to present fairly the financial position and results of operations of the State or its agencies, institutions, departments, or funds in conformity with generally accepted accounting principles.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of Winthrop University at June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.


The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Winthrop University
September 28, 2001

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2001, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 23, the University changed its method of accounting for and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* effective for periods beginning after June 15, 2000. Under this standard, the University changed its method of reporting private donations and certain grants. Adjustments resulting from changes to comply with this Statement are required to be treated as adjustments of prior periods.

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 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.

As discussed in Note 23, certain errors in the application of accounting principles and other matters regarding the recording of payments for master lease program notes payable to third party lenders were discovered by management of the University during the current year. The changes have been accounted for as corrections of errors



Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

WINTHROP UNIVERSITY

Balance Sheet
June 30, 2001

ASSETS

CURRENT FUNDS

Unrestricted:

Cash and Cash Equivalents (Note 16)	\$ 5,372,962
Receivables: (Note 14)	
State Appropriations (Note 2)	2,278,846
Student Accounts, Net of Allowance of \$43,481	426,413
Related Parties (Note 19)	63,970
Other	276,241
Inventories (Note 12)	214,221
Prepaid Items	435,329
Accrued Interest Receivable	28,343
Due from Other Funds (Note 13)	708,939
Total Unrestricted	<u>9,805,264</u>

Restricted:

Federal Grants and Contracts Receivables	467,249
State Grants and Contracts Receivable	156,839
Local Government Grants and Contracts Receivable	3,345
Private Gifts Receivable	32,258
Endowment Income Receivable	9,478
Prepaid Items	23,474
Total Restricted	<u>692,643</u>
Total Current Funds	<u>\$ 10,497,907</u>

LOAN FUNDS

Cash and Cash Equivalents (Note 16)	\$ 184,863
Federal Grants and Contracts Receivables	73,170
Loans to Students, Net of Allowance of \$95,010 (Note 14)	2,395,768
Total Loan Funds	<u>\$ 2,653,801</u>

ENDOWMENT AND SIMILAR FUNDS

Cash and Cash Equivalents (Note 16)	\$ 708,589
Total Endowment and Similar Funds	<u>\$ 708,589</u>

LIABILITIES AND FUND BALANCES

CURRENT FUNDS

Unrestricted:

Accounts Payable	\$ 659,193
Accrued Payroll and Related Liabilities	1,825,818
Accrued Interest Payable	7,342
Unearned Student Revenues	523,044
Accrued Compensated Absences and Related Liabilities	1,620,453
Student Deposits	302,573
Master Lease Program Note Payable (Note 6)	149,175
Fund Balance	4,717,666
Total Unrestricted	<u>9,805,264</u>

Restricted:

Accounts Payable	108,635
Accrued Payroll and Related Liabilities	64,227
Accrued Compensated Absences and Related Liabilities	7,348
Due to Unrestricted Current Funds (Note 13)	19,418
Fund Balances:	
Grants and Contracts	356,651
Scholarships and Student Aid	136,364
Total Restricted	<u>692,643</u>
Total Current Funds	<u>\$ 10,497,907</u>

LOAN FUNDS

Accounts Payable	\$ 7,751
Fund Balances:	
U.S. Government Grants Refundable	2,585,807
University Funds - Restricted	60,243
Total Loan Funds	<u>\$ 2,653,801</u>

ENDOWMENT AND SIMILAR FUNDS

Fund Balances:	
Endowment - Restricted	\$ 469,856
Quasi-Endowment - Unrestricted	238,733
Total Endowment and Similar Funds	<u>\$ 708,589</u>

WINTHROP UNIVERSITY

Balance Sheet

June 30, 2001

ASSETS

PLANT FUNDS

Unexpended:

Cash and Cash Equivalents (Note 16)	\$	607,716
Capital Improvement Bond Proceeds Receivable (Note 3)		8,755,128
Prepaid Items		183
Capital Project Funds Receivable (Note 14)		235,000
Accrued Interest Receivable		8,735
Total Unexpended		<u>9,606,762</u>

Retirement of Indebtedness:

Cash and Cash Equivalents (Note 16)		1,111,631
Accrued Interest Receivable		49,847
Total Retirement of Indebtedness		<u>1,161,478</u>

Investment in Plant:

Land and Improvements		1,311,020
Buildings		85,150,192
Furniture, Fixtures, and Equipment (Notes 5 and 6)		5,782,919
Library Books and Materials		8,500,407
Construction in Progress (Note 15)		7,354,752
Equipment Held Under Capital Lease (Note 7)		168,484
Total Investment in Plant		<u>108,267,774</u>
Total Plant Funds		<u>\$119,036,014</u>

AGENCY FUNDS

Cash and Cash Equivalents (Note 16)	\$	<u>38,871</u>
Total Agency Funds	\$	<u>38,871</u>

LIABILITIES AND FUND BALANCES

PLANT FUNDS

Unexpended:

Accounts Payable	\$	708,171
Retainage Payable		323,724
Bonds Payable (Note 4)		96,068
Fund Balances:		
Unrestricted		984,069
Restricted		7,494,730
Total Unexpended		<u>9,606,762</u>

Retirement of Indebtedness:

Accrued Interest Payable		135,646
Due to Unrestricted Current Funds (Note 13)		689,521
Fund Balances - Restricted		336,311
Total Retirement of Indebtedness		<u>1,161,478</u>

Investment in Plant:

Notes Payable (Note 5)		949,879
Bonds Payable (Note 4)		8,240,808
Master Lease Program Note Payable (Note 6)		1,258,211
Capital Lease Obligations (Note 7)		72,437
Net Investment in Plant		97,746,439
Total Investment in Plant		<u>108,267,774</u>
Total Plant Funds		<u>\$119,036,014</u>

AGENCY FUNDS

Deposits Held for Others	\$	<u>38,871</u>
Total Agency Funds	\$	<u>38,871</u>

The accompanying notes are an integral part of this financial statement.

WINTHROP UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			TOTALS FOR THE YEAR ENDED JUNE 30, 2001 (MEMORANDUM ONLY)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>LOAN FUNDS</u>	<u>ENDOWMENT AND SIMILAR FUNDS</u>	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$60,482,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,482,726
State Capital Improvement Bond Revenue (Note 3)	-	-	-	-	4,507,709	-	-	4,507,709
State Appropriations-Restricted (Note 2)	-	3,948,582	-	-	-	-	-	3,948,582
Federal Grants and Contracts - Restricted	-	16,662,701	38,824	-	-	-	-	16,701,525
State Grants and Contracts-Restricted	-	3,159,115	-	-	-	-	-	3,159,115
Local Grants and Contracts-Restricted	-	91,128	-	-	-	-	-	91,128
Nongovernmental Grants and Contracts - Restricted	-	63,609	-	-	-	-	-	63,609
Private Gifts	-	666,367	-	-	235,000	-	-	901,367
Interest Income - Restricted	-	-	44,643	-	73,493	254,215	-	372,351
Endowment Income-Restricted	-	82,437	-	-	-	-	-	82,437
U.S. Government advances - restricted	-	-	13,083	-	-	-	-	13,083
Expended for Plant Facilities (Including \$865,640) Charged to Current Funds Expenditures)	-	-	-	-	-	-	11,087,313	11,087,313
Retirement of Indebtedness (Including \$137,643) Charged to Current Funds Expenditures)	-	-	-	-	-	-	1,021,213	1,021,213
Student Tuition and Fees	-	-	-	-	-	1,326,271	-	1,326,271
Other Additions	-	-	3,959	-	-	3,858	-	7,817
Total Revenues and Other Additions	<u>60,482,726</u>	<u>24,673,939</u>	<u>100,509</u>	<u>-</u>	<u>4,816,202</u>	<u>1,584,344</u>	<u>12,108,526</u>	<u>103,766,246</u>
Expenditures and Other Deductions:								
Educational and General Expenditures	49,935,366	24,326,017	-	-	-	-	-	74,261,383
Auxiliary Enterprises Expenditures	8,478,953	-	-	-	-	-	-	8,478,953
Indirect Cost Recoveries Remitted to State General Fund	46,388	-	-	-	-	-	-	46,388
Indirect Costs Recovered	-	100,552	-	-	-	-	-	100,552
Refunded to Grantors	-	54,072	-	-	-	-	-	54,072
Loan Cancellations and Write-Offs	-	-	43,170	-	-	-	-	43,170
Administrative and Collection Costs	-	-	52,482	-	-	-	-	52,482
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$1,844,268)	-	-	-	-	12,065,941	-	-	12,065,941
Retirement of Indebtedness	-	-	-	-	-	883,570	-	883,570
Interest and Executory Fees on Indebtedness	-	-	-	-	-	361,576	-	361,576
Disposal of Plant Facilities	-	-	-	-	-	-	1,730,707	1,730,707
Other Costs	-	-	196	-	2,711	-	-	2,907
Total Expenditures and Other Deductions	<u>58,460,707</u>	<u>24,480,641</u>	<u>95,848</u>	<u>-</u>	<u>12,068,652</u>	<u>1,245,146</u>	<u>1,730,707</u>	<u>98,081,701</u>

WINTHROP UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			TOTALS FOR THE YEAR ENDED JUNE 30, 2001 (<u>MEMORANDUM ONLY</u>)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	LOAN AND <u>FUNDS</u>	ENDOWMENT AND <u>SIMILAR FUNDS</u>	<u>UNEXPENDED</u>	RETIREMENT OF <u>INDEBTEDNESS</u>	INVESTMENT <u>IN PLANT</u>	
Transfers Among Funds - Additions/(Deductions):								
Mandatory:								
Principal and Interest	(267,071)	-	-	-	-	267,071	-	-
Loan Fund Matching Grant	(4,361)	-	4,361	-	-	-	-	-
Nonmandatory: (Note 8)								
Transfer of Funds for Capital Projects	(487,545)	-	-	-	487,545	-	-	-
Transfer for Excess Debt Service - Housing Revenue for Auxiliary Enterprise Operations	2,297,834	-	-	-	-	(2,297,834)	-	-
Transfers Between Current Funds	(378)	378	-	-	-	-	-	-
Transfer of Housing Revenue for Debt Service	(2,000,000)	-	-	-	-	2,000,000	-	-
Transfer of Current Funds for Master Lease Program Notes Principle and Interest	(447,849)	-	-	-	-	447,849	-	-
Transfer of Excess Debt Service - Athletic Revenue for Capital Projects	-	-	-	-	650,000	(650,000)	-	-
Transfers of Funds to Increase Endowment Principal	-	(25,254)	-	25,254	-	-	-	-
Transfer of Excess Debt Service - Student Tuition for Capital Projects	-	-	-	-	312,342	(312,342)	-	-
Transfer of Debt Representing Proceeds Used for Plant Additions	-	-	-	-	<u>6,163,034</u>	<u>-</u>	<u>(6,163,034)</u>	<u>-</u>
Total Transfers	<u>(909,370)</u>	<u>(24,876)</u>	<u>4,361</u>	<u>25,254</u>	<u>7,612,921</u>	<u>(545,256)</u>	<u>(6,163,034)</u>	<u>-</u>
Net Increase (Decrease) for the Year	1,112,649	168,422	9,022	25,254	360,471	(206,058)	4,214,785	5,684,545
Fund Balances at July 1, 2000	<u>3,605,017</u>	<u>324,593</u>	<u>2,637,028</u>	<u>683,335</u>	<u>8,118,328</u>	<u>542,369</u>	<u>93,531,654</u>	<u>109,442,324</u>
Fund Balances at June 30, 2001	<u>\$4,717,666</u>	<u>\$493,015</u>	<u>\$2,646,050</u>	<u>\$708,589</u>	<u>\$8,478,799</u>	<u>\$ 336,311</u>	<u>\$97,746,439</u>	<u>\$115,126,869</u>

The accompanying notes are an integral part of this financial statement.

WINTHROP UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2001

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Revenues:			
Student Fees	\$20,860,093	\$ -	\$20,860,093
State Appropriations (Note 2)	25,306,340	3,874,052	29,180,392
Executive Masters in Business Administration			
Program Fees	180,095	-	180,095
Application Fees	129,283	-	129,283
Undergraduate Orientation Fees	98,152	-	98,152
Other Fees	140,169	-	140,169
Federal Grants and Contracts	91,110	16,525,156	16,616,266
State Grants and Contracts (Note 2)	9,442	3,077,880	3,087,322
Local Grants and Contracts	-	91,261	91,261
Non-Governmental Grants and Contracts	-	36,260	36,260
Private Gifts	536,634	638,971	1,175,605
Interest Income	30,697	-	30,697
Endowment Income	-	82,437	82,437
Sales and Services of Educational Department	1,703,340	-	1,703,340
Sales and Services of Auxiliary Enterprises	10,383,085	-	10,383,085
Sales and Services of Athletic and Related Events	708,741	-	708,741
Sales - Student Organizations	51,125	-	51,125
Payment Plan for Student Tuition and Fees	109,950	-	109,950
Other Sources	<u>144,470</u>	<u>-</u>	<u>144,470</u>
Total Current Revenues	<u>60,482,726</u>	<u>24,326,017</u>	<u>84,808,743</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	21,040,308	733,487	21,773,795
Research	46,535	269,496	316,031
Public Service	1,460,195	2,755,799	4,215,994
Academic Support	5,441,795	3,798	5,445,593
Student Services	6,500,462	10,109	6,510,571
Institutional Support	5,541,329	-	5,541,329
Operation and Maintenance of Plant	6,684,599	-	6,684,599
Scholarships and Fellowships	<u>3,220,143</u>	<u>20,553,328</u>	<u>23,773,471</u>
Total Educational and General Expenditures	<u>49,935,366</u>	<u>24,326,017</u>	<u>74,261,383</u>
Mandatory Transfers for Loan Fund Matching Grants	<u>4,361</u>	<u>-</u>	<u>4,361</u>
Total Educational and General	<u>49,939,727</u>	<u>24,326,017</u>	<u>74,265,744</u>

WINTHROP UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2001

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Expenditures and Mandatory Transfers (Continued):			
Auxiliary Enterprises:			
Housing Expenditures	4,898,425	-	4,898,425
Health Services Expenditures	814,757	-	814,757
Food Service Expenditures	2,692,010	-	2,692,010
Vending Expenditures	<u>73,761</u>	<u>-</u>	<u>73,761</u>
Total Auxiliary Enterprises Expenditures	8,478,953	-	8,478,953
Mandatory Transfers for Principal and Interest	<u>267,071</u>	<u>-</u>	<u>267,071</u>
Total Auxiliary Enterprises	<u>8,746,024</u>	<u>-</u>	<u>8,746,024</u>
Total Expenditures and Mandatory Transfers	<u>58,685,751</u>	<u>24,326,017</u>	<u>83,011,768</u>
 Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	2,297,834	378	2,298,212
Nonmandatory Transfers Out	(2,935,772)	(25,254)	(2,961,026)
Excess (Deficiency) of Restricted Receipts			
Over Transfers to Revenues	-	247,370	247,370
Refunded to Grantors	-	(54,072)	(54,072)
Indirect Cost Recoveries Remitted to the State			
General Fund	<u>(46,388)</u>	<u>-</u>	<u>(46,388)</u>
Total Other Transfers and Additions/ (Deductions)	<u>(684,326)</u>	<u>168,422</u>	<u>(515,904)</u>
Net Increase (Decrease) in Fund Balances	<u>\$ 1,112,649</u>	<u>\$ 168,422</u>	<u>\$ 1,281,071</u>

The accompanying notes are an integral part of this financial statement.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of Winthrop University have been prepared in accordance with GAAP, as outlined in GASB Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

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.

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 (primary entity).

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-125-10 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 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 Alumni Association of Winthrop University; 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, 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 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, interest on loans to students is recorded when collected, 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 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.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Mandatory transfers are amounts moved between fund groups/subgroups to be used for the purposes of the recipient fund. They 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. Nonmandatory transfers are made at the discretion of the governing body for variety of purposes. They may include the retransfer of unspent resources to the fund which initially provided the monies.

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; purchases and normal replacement of movable equipment; computer software developed or obtained for internal use; and library books and other materials (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting - University Funds

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 realized 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 when the endowment agreement requires the income to be added to the corpus. For these exceptions, income is reported in the endowment and similar funds group. For those endowment agreements which require current earnings not used for the restricted purpose to be added to the corpus, the University records a mandatory transfer to move these monies to the endowment fund group.

WINTHROP UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

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. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

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 for auxiliary enterprises operations. Unrestricted current funds include but are not limited to all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. 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. Restricted current funds are those available for financing operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Current funds revenues include (1) all unrestricted gifts, grants and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include resources that are restricted by external persons or agencies to transactions or purposes accounted for in other than current funds. Additional policy disclosures regarding revenue recognition are described elsewhere in this note under Basis of Accounting, Gifts and Other Nonexchange Transactions, and Deferred Revenues. Unrestricted resources other than gifts and other nonexchange transactions 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, bookstore, student health services, and vending operations (which includes student long-distance telephone services). The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$2,840,054 at June 30, 2001.

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, 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.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (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 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 and other debt service charges related to plant fund indebtedness bonded debt and the athletic facilities note payable. Debt service expenditures for capital lease obligations and bank notes payable outstanding at June 30, 2001, are reported as current funds expenditures. 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; renewals and replacements; or debt service are recorded directly in the University's applicable plant fund subgroup 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.

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 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

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Indirect Cost Recoveries (Continued)

must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. This policy also applies to 12-month faculty and 9-month staff. 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 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 at termination. 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 and restricted 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. A capital asset contributed to the University by another State agency is valued at the cost to the agency which originally acquired the asset. 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 and installment agreements is stated at the lower of the present value of minimum lease payments, including the down payment, 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.

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.

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. Any associated debt is simultaneously transferred to the investment in plant funds group also. When construction projects are substantially complete and ready for use, construction in progress costs are reclassified to the appropriate plant asset accounts.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

Library books, periodicals, microfilms, and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation.

Computer software costs to be capitalized include the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use are amortized on a straight-line basis over the life of the asset.

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 and renovations to plant assets; qualifying equipment with a unit value in excess of \$5,000 and a useful life in excess of one year; computer software with a unit value in excess of \$100,000 and a useful life in excess of one year; and all library collection materials regardless of cost. When plant assets and equipment are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at the 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 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 year 2001.

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 deposits 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 forfeit terms of the agreement.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Other Fees

Other fees generally consist of revenue resulting from occasional or one-time fees that don't directly relate to the cost of instruction such as fees for student applications, fines and orientation.

Revenue of Educational Departments

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

Gifts and Other Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the University either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions the University engages in include "Voluntary nonexchange transactions" (certain grants and donations).

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a. The recipient has the characteristics specified by the provider.
- b. The recipient has met the time requirements specified by the provider [i.e., the period when the resources are required to be used (e.g., disbursed or consumed) or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider].
- c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
- d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts and Other Nonexchange Transactions (Continued)

Gifts are a type of nonexchange transaction. Gifts include resources donated to the University for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current funds gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are received or promised (i.e., the earlier of when the donor announces the gift or notifies the university of the gift and if the promise is verifiable and the resources are measurable and probable of collection or when the University receives the monies). Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current and met all eligibility requirements. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., the earlier of when the donor announces the gift or notifies the University of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the University receives the monies).

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenues by recipients.

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 and deposits, and library periodicals.

Fund-raising Costs

All fund-raising activities are conducted by the Winthrop Foundation. Fund-raising costs incurred by the University are reimbursed by the Winthrop Foundation. Such costs are initially recorded by the University in the Institutional Support Functional expenditure category. The University reduces the expenditure account once it is reimbursed by the Foundation.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

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 internal cash management pool, see the deposits disclosures in Note 16.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

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

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases.

The federal government only requires arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup. The University had no rebatable arbitrage for the period presented.

Information Technology Costs

Non-capitalizable Information Technology (IT) costs are not separately budgeted and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category and other IT costs are reported in institutional support.

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. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals (Memorandum Only) Column

Amounts in the "Totals (Memorandum Only)" column 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.

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 5L of Part IA of the 2000-2001 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, 2001:

Original Appropriation	20,807,001
State Budget and Control Board Approved 1% Mid-Year Appropriation Reduction	(231,994)
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 63C.9.)	905,002
401K Employee Deferred Compensation Match (Proviso 72.44)	63,619
Appropriation Allocations from the State	
Commission on Higher Education (CHE):	
From Supplemental Appropriation of Fiscal Year 1999-2000	
Surplus General Fund Revenues (August 2000 Joint Resolution	
R453, H3659) for:	
Access and Equity Competitive Grants	16,800
Needs-Based Grants	20,545 (A)
Academic Endowment Incentive (Code of Laws 59-118-40)	73,390 (A)
Competitive Research Grants	5,466
From Capital Reserve Fund Appropriation (August 2000 Joint	
Resolution R467, H4776) for:	
Performance Funding - Current	1,106,270
Performance Funding - Increase	991,264
From the Children's Education Endowment Fund for:	
Palmetto Fellows Scholarship	543,879 (A)
Need-Based Student Grants	548,900 (A)
For Life Scholarships (2000 Act 453)	2,729,520 (A)
For Performance Funding (Proviso 5A.6.)	1,594,967
For Academic Endowment Incentive Match	32,348 (A)
For Access and Equity Desegregation Funding (Proviso 5A.5.)	7,520
Revised Appropriations - Legal Basis	29,214,497

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

Accrued Funding for Net Payroll Accrual Adjustments	<u>40,425</u>
State Appropriations Revenue - Accrual Basis	<u>\$29,254,922</u>
State Appropriations revenue is reported in the following funds:	
Unrestricted Current Funds	\$25,306,340
Restricted Current Funds for Higher Education Grant/Scholarship and Other Funding	<u>3,948,582 (A)</u>
	<u>\$29,254,922</u>

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 fiscal year 2002 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

In addition, the University received from the State Commission on Higher Education allocations of Education Improvement Act funding as follows: \$2,470,212 for the Teacher Recruitment Program, \$230,785 for the Math/Science Program, and \$62,000 for the Centers of Excellence Program. The University also received from the State Department of Education allocations of Education Improvement Act funding as follows: \$58,000 for the State Arts in Basic Curriculum program and \$100,000 for the At Risk Initiative program. All of these amounts are reported as state grants and contracts in the restricted current funds.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2001 and in prior fiscal years, the State authorized and made available 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 in the unexpended plant funds. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2001, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 2001</u>	<u>Balance Authorized June 30, 2001</u>
646 of 1978	\$ 269,750	\$ 269,676	\$ -	\$ 74
538 of 1986	3,558,000	3,555,364	-	2,636
111 of 1997	6,750,000	4,873,671	1,876,329	-
28 of 1999	4,400,000	-	152,582	4,247,418
1 of 2001	<u>4,505,000</u>	<u>-</u>	<u>-</u>	<u>4,505,000</u>
Total	<u>\$19,482,750</u>	<u>\$8,698,711</u>	<u>\$2,028,911</u>	<u>\$8,755,128</u>

The amount authorized by Act 1 of 2001 is for roof repair to the Rutledge building and window replacements and other renovations to Peabody Hall. Funding is available as expenditures are made.

NOTE 4 - BONDS PAYABLE

Bonds Payable

At June 30, 2001, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2001 Balance</u>
State Institution Bonds			
Series 1991F	5.8-6.1%	3-1-01	\$ -
Series 1993A	4.1-5.2%	3-1-08	1,590,000
Series 2001A	4.3-4.9%	10-1-20	3,750,000
Athletic Facilities			
Revenue Bonds Series 2001A	4.59%	10-1-20	2,400,000
Auxiliary Facilities			
Revenue Bonds Series 1997	5.47%	11-1-09	<u>596,876</u>
Total			8,336,876
Less: Amount Included in Unexpended Plant Funds			<u>(96,068)</u>
Liability Reported in Investment in Plant			<u>\$8,240,808</u>

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

Bonds Payable (Continued)

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. The auxiliary facilities revenue bond covenants require the University to pledge the revenues of the bookstore for payment of principal and interest. 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. The athletic facilities revenue bond covenants require the University to pledge revenues from a special student fee imposed on upon students as part of the cost of attending the University and a special admissions fee on all paid admissions to athletic facilities. These revenues will be recorded in student tuition and fee revenues and other additions in the retirement of indebtedness plant funds subgroup.

The \$810,000 in proceeds from the auxiliary facilities revenue bonds were used to purchase an off-campus bookstore and the land associated with the bookstore. Bond principal and interest are payable semiannually. Amounts including interest required to complete payment of the revenue bonds obligations as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 56,863	\$ 31,882	\$ 88,745
2003	60,016	28,729	88,745
2004	63,344	25,401	88,745
2005	66,856	21,889	88,745
2006	70,563	18,182	88,745
2007 through 2010	<u>279,234</u>	<u>31,372</u>	<u>310,606</u>
Total Obligations	<u>\$596,876</u>	<u>\$157,455</u>	<u>\$754,331</u>

During fiscal year 2001, the University issued athletic facilities revenue bonds in the amount of \$2,400,000. Related bond issue costs totaled \$5,499 and are recorded as expenditures in the unexpended plant funds subgroup. The proceeds were used to make improvements to the baseball stadium, the soccer field, the softball complex, and the coliseum. Bond principal and interest are payable annually. Amounts including interest required to complete payment of the athletic facilities revenue bonds obligations as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 120,000	\$ 67,014	\$ 187,014
2003	120,000	104,652	224,652
2004	120,000	99,144	219,144
2005	120,000	93,636	213,636
2006	120,000	88,128	208,128
2007 through 2021	<u>1,800,000</u>	<u>660,960</u>	<u>2,460,960</u>
Total Obligations	<u>\$2,400,000</u>	<u>\$1,113,534</u>	<u>\$3,513,534</u>

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

Bonds Payable (Continued)

During fiscal year 2001, the University issued state institution bonds in the amount of \$3,750,000. Related bond issue costs totaled \$12,268 and are recorded as expenditures in the unexpended plant funds subgroup. The proceeds were used to increase the budget for completion of the Sims Life Sciences Building.

During fiscal years 1991 and 1993, the University issued state institution bonds in amounts of \$1,000,000 and \$2,815,000 respectively. The proceeds of these bonds were used to make renovations, improvements, and additions to and furnish University facilities.

The bond documents 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 revenue bonds and the state institution bonds, the University must generate net revenues available for debt service of not less than 125% and 100% percent of debt service payments due in each bond year. State institution bond covenants require tuition fees sufficient to pay bond obligations. The University is required to revise the schedule of tuition fees whenever necessary to meet the annual principal and interest requirements on all state institution bonds.

Beginning October 1, 2011, the Series 2001A state institution bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the State. The redemption prices (expressed as a percentage of the principal redeemed) for the state institution bonds range from 101% percent in 2011 and 100% thereafter.

Beginning March 1, 2003, the Series 1993A 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% in 2002 to 100% in 2004.

All of the University's state institution bonds are payable in annual installments with semiannual interest payments. Amounts including interest required to complete payment of the state institution bond obligations as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 295,000	\$ 247,288	\$ 542,288
2003	320,000	233,683	553,683
2004	330,000	218,849	548,849
2005	350,000	203,353	553,353
2006	375,000	186,578	561,578
2007 through 2021	<u>3,670,000</u>	<u>1,299,789</u>	<u>4,969,789</u>
Total Obligations	<u>\$5,340,000</u>	<u>\$2,389,540</u>	<u>\$7,729,540</u>

During the year ended June 30, 2001, the University made state institution bond principal payments of \$310,000. It also reported interest expenditures of \$123,861 and \$2,073 of executory fees expenditures related to these bonds. Also in the current year, the University made auxiliary bond principal payments of \$53,876. It also reported interest expenditures of \$34,869 related to these bonds.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

Bonds Payable (Continued)

The South Carolina State Budget and Control Board approved the University to issue \$11,000,000 in student housing revenue bonds during fiscal year 2001. The University plans to issue \$2,000,000 of these bonds in fiscal year 2002.

The South Carolina State Budget and Control Board has also approved the issuance of \$1,250,000 in state institution bonds in fiscal year 2002. These thirty year bonds will be issued at an interest rate of 4.25 percent. The proceeds will be used to increase the budget for completion of the Sims Life Sciences Building.

Debt Service Limitation On State Institution Bonds

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 2000, were \$975,719, which results in a legal annual debt service limit at June 30, 2001, of \$878,147.

NOTE 5 - NOTES PAYABLE

At June 30, 2001, notes payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2001 Balance</u>
State of South Carolina Note (Athletic Facilities) Series 1981	6.0%	1-1-11	\$898,782
Bank Note (8/96)	5.05%	8-1-01	<u>51,097</u>
Total Notes			<u>\$949,879</u>

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 and other additions in the retirement of indebtedness plant funds subgroup. The bank notes will be repaid from available unrestricted sources and the debt service payments will be reported as unrestricted current funds expenditures.

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 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.

During fiscal year 1981, the University issued athletic facilities notes in the amount of \$2,620,000. The proceeds of these notes were used to construct and equip an athletic coliseum (field house).

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 5 - NOTES PAYABLE (CONTINUED)

During fiscal year 2001, the University, through the State Treasurer's Office, refinanced the athletic facilities notes. The interest rate was lowered from 6.5% to 6.0% and the note obligation period was extended five years from the fiscal year ending June 30, 2006 to the fiscal year ending June 30, 2011. The total amount refinanced by the University was \$898,782. There was no refinancing cost associated with this transaction.

The athletic facilities and bank notes are payable in semiannual and annual installments, respectively, plus interest. Amounts including interest required to complete payment of the note obligations as June 30, 2001, are as follows:

Athletic Facilities Note

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 74,624	\$ 45,224	\$ 119,848
2003	71,454	48,394	119,848
2004	75,805	44,042	119,847
2005	80,421	39,425	119,846
2006	85,319	34,529	119,848
2007 through 2011	<u>511,159</u>	<u>88,075</u>	<u>599,234</u>
Total Obligations	<u>\$898,782</u>	<u>\$299,689</u>	<u>\$1,198,471</u>

Bank Note

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$51,097	\$1,341	\$52,438

The University reported principal and interest expenditures of \$147,764 and \$65,663 on the athletic facilities note in fiscal year 2001 in the retirement of indebtedness plant funds subgroup. For the bank note, the University reported fiscal year 2001 principal and interest expenditures of \$102,371 and \$6,544 in the applicable functional expenditure categories of the unrestricted current funds.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 6 - MASTER LEASE PROGRAM NOTES PAYABLE

In the current and prior years, the University made borrowings from a bank under the State Treasurer's Office's Master Lease Program. At June 30, 2001, the University had a bank notes payable outstanding, as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Note dated June 1, 1998	4.69%	June 1, 2002	\$ 161,532
Note dated June 1, 1998	5.11%	June 1, 2005	552,165
Noted dated June 1, 1998	5.11%	June 1, 2005	435,411
Note dated December 13, 2000	4.23%	April 1, 2003	149,175
Note dated December 13, 2000	4.79%	April 1, 2006	<u>109,103</u>
Total			<u>\$1,407,386</u>

The University financed capital acquisitions through two separate borrowings from the State Treasurer's Master Lease Program. The University borrowed \$226,134 to finance the purchase of 200 desktop computers and \$109,103 to finance the purchase of 6 campus police cars. The expenditures relating to the computer acquisitions were recorded in the unrestricted current fund. The police car acquisitions were accounted for in the unexpended plant fund subgroup.

The notes are collateralized by the desktop computers and police cars. The police cars are recorded in the investment in plant funds subgroup as equipment and are valued at approximately \$105,656. The desktop computers did not meet the University's capitalization criteria for major additions and therefore were not capitalized as equipment in the investment in plant funds subgroup. The bank note related to the purchase of the desktop computers is reported in the current unrestricted funds subgroup. The notes require the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

Proceeds from the original bank note of \$640,000 with an outstanding balances at June 30, 2001 of \$161,532 was used to acquire central academic computing equipment. The note is collateralized by equipment which is recorded in the investment in plant funds subgroup and is valued at \$613,623. The notes requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

Proceeds from the original bank notes of \$899,750 and \$709,500, with outstanding balances at June 30, 2001, of \$552,165 and \$435,411, respectively, were used to acquire campus-wide telephone 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.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 6 - MASTER LEASE PROGRAM NOTES PAYABLE (CONTINUED)

The notes are payable in annual installments plus interest. Amounts including required to complete payment of the bank note obligations as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 484,136	\$ 67,012	\$ 551,148
2003	336,937	45,103	382,040
2004	274,520	29,124	303,644
2005	288,281	15,365	303,646
2006	<u>23,512</u>	<u>912</u>	<u>24,424</u>
Total Obligations	<u>\$1,407,386</u>	<u>\$157,516</u>	<u>\$1,564,902</u>

Payments for fiscal year 2001 were \$526,725 of which \$77,835 represented interest. During fiscal year 2000 a revised amortization schedule was produced by the lender for the note payable with a balance at June 30, 2001 of \$161,532. Based on discussions with the lender and using the revised amortization schedule, the University reduced the bank note principal \$1,237. The routine debt service payments on Master lease obligations are funded from unrestricted resources. These funds are reflected as nonmandatory transfers from the current unrestricted funds subgroup to the retirement of indebtedness plant funds subgroup of the plant funds group. The debt service payments are also recorded in the retirement of indebtedness plant funds subgroup except for the payment related to the purchase of the desktop computers which is reported in the applicable unrestricted current funds functional expenditure category. The University recorded in unrestricted current funds a payment of \$78,396 of which \$1,437 represented interest.

NOTE 7 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of automobiles and equipment. In addition, the entity is obligated under a capital lease for the acquisition of equipment.

Future commitments for the capital lease and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2001, were as follows:

<u>Year Ending June 30</u>	<u>Capital Lease</u>	<u>Operating Leases</u>
2002	\$37,800	\$155,711
2003	37,800	135,674
2004	-	96,580
2005	<u>-</u>	<u>3,525</u>
Total Minimum Lease Payments	\$75,600	<u>\$391,490</u>
Less: Interest	<u>3,163</u>	
Principal Outstanding/Present Value of Net Minimum Payments	<u>\$72,437</u>	

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 7 - LEASE OBLIGATIONS (CONTINUED)

Capital Lease

In fiscal year 1999, the University entered into a capital lease for a voice processing system for \$168,484. The capital lease is payable in monthly installments from unrestricted current funds resources and has a term expiring in June 2003. The equipment collateralizes the lease liability. Exhibit A reports the equipment as "equipment held under capital lease" in the investment in plant funds subgroup. Capital lease expenditures for fiscal year 2001 were \$37,800, of which \$3,765 represented interest.

Operating Leases

The University's noncancelable operating leases for automobiles and equipment having remaining terms of more than one year expire in various fiscal years from 2002 through 2005. The University's short-term leases are for equipment. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

The University leased a computer terminal from the South Carolina Law Enforcement Division. The lease term is month-to-month and requires annual lease payments of \$3,941.

Total operating lease expenditures in fiscal year 2001 were \$76,015 for computer equipment and \$337,293 for automobiles and other equipment. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 8 - NONMANDATORY INTERFUND TRANSFERS

Tuition, fees, and other 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 2001, the University transferred \$301,420 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.

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 project accounts. For the most part, once projects have been approved by the State Budget and Control Board, institutions are authorized to make transfers for specific projects with notification to the State Treasurer. Unexpended balances of specific capital projects are reported as restricted fund balances in the unexpended plant funds subgroup. During the current year, the University transferred \$177,110 within the unexpended plant funds subgroup from the general funding accounts to finance specific capital projects. In addition, the University transferred from the retirement of indebtedness plant funds subgroup to the unexpended plant fund subgroup \$10,922 in interest earned from a State Treasurer's debt proceeds account. This transfer was recorded in the specific capital project account.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 8 - NONMANDATORY INTERFUND TRANSFERS (CONTINUED)

In addition, during fiscal year 2001, the University recorded other operating interfund transfers. A summary of these nonmandatory transfers is as follows:

<u>From</u>	<u>FUND</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current		Unexpended	\$ 487,545	Funding for renovations and window replacements
Unrestricted Current		Restricted Current	378	Funding for fringe benefit expenditures not covered by grant
Unrestricted Current		Retirement of Indebtedness	2,447,849	\$2,000,000 for housing revenues to be used for future debt service and housing operations. \$447,849 for funding of master lease program notes payable.
Restricted Current		Endowment and Similar Funds	25,254	Funding to increase principal amounts for three endowments
Retirement of Indebtedness		Unrestricted Current	2,297,834	To finance housing auxiliary enterprise operations
Retirement of Indebtedness		Unexpended	650,000	Athletic revenues to be used for the athletic facilities capital project

NOTE 9 - PENSION PLANS

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

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 9 - PENSION PLANS (CONTINUED)

public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2001, 2000, and 1999, were \$1,492,191, \$1,557,086, and \$1,369,715, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$29,646 in the current fiscal year at the rate of .15 percent of compensation.

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

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 9 - PENSION PLANS (CONTINUED)

provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2001, 2000, and 1999, were \$40,086, \$36,145, and \$33,646, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$778 and accidental death insurance contributions of \$778 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable 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 pension plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts 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 plan(s) 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 plan(s).

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 9 - PENSION PLANS (CONTINUED)

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

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

ORP participation is limited to faculty 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 percent plus the retiree surcharge of 2.52 percent from the employer in fiscal year 2001.

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 \$608,707 (excluding the surcharge) from University as employer and \$483,740 from its employees as plan members. In addition, the University did not incur expenditures related to 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.

NOTE 10 - 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 these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 10 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$2,049,098 for the year ended June 30, 2001. As discussed in Note 9, the University paid \$736,056 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the 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 11 - DEFERRED COMPENSATION PLANS

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

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to \$300 and may be applied proportionately to each payroll for all eligible employees until the designated funds are exhausted. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

During fiscal year 2000-2001 the University made contributions from State appropriations and other applicable funding sources of \$300 in total to the 401(k) account of each eligible State employee for a total of \$51,900 for all University employees. The expenditures are reported in the applicable functional expenditure categories in which the salaries for the benefiting employees are recorded.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 12 - 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, 2001:

<u>Category</u>	<u>Method</u>	
Central Supply	First-in, first-out	\$166,651
Fuels	First-in, first-out	38,372
Printing Services	First-in, first-out	<u>9,198</u>
		<u>\$214,221</u>

NOTE 13 - 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 interfund liabilities for deficit cash balances in the State's internal 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. Individual interfund balances outstanding at June 30, 2001, were as follows:

	<u>Receivable</u>	<u>Payable</u>
Unrestricted Current Funds	\$708,939	\$ -
Restricted Current Funds	-	19,418
Retirement of Indebtedness Plant Funds	<u>-</u>	<u>689,521</u>
Totals	<u>\$708,939</u>	<u>\$708,939</u>

The amount due to unrestricted current funds from retirement of indebtedness plant funds is monies from auxiliary enterprise housing revenues transferred by nonmandatory transfer to the retirement of indebtedness plant funds. The excess funds remain in the retirement of indebtedness subgroup until needed to finance housing auxiliary enterprise operations. At year end the University recognizes the remaining cash balance in the retirement of indebtedness plant funds as an interfund liability due to the unrestricted current fund.

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Notes to Financial Statements
June 30, 2001

NOTE 14 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES

The University has the following significant and/or unique accounts receivable in its various fund groups and subgroups at June 30, 2001:

Unrestricted Current Funds:

Receivables

State Appropriations for Accrued Payroll (Note 2) \$2,278,846

Student Accounts Receivable

For Student tuition, fees, room, and board \$ 469,894
Less: Allowance for Doubtful Accounts 43,481

Net Balance \$426,413

Related Parties (Note 19) \$63,970

Other:

Joynes Conference Center Receivable \$ 93,100
Special Contract Courses Receivable 34,400
Camp Fees Receivable 7,700
McFeat Early Childhood Program Receivable 6,200
MCAA Receivable from Men's Basketball Tournament 73,900
Other Receivables 60,941

\$ 276,241

Loan Funds:

Student Notes Receivable:

Perkins Loan Program \$2,490,778
Less: Allowance for Doubtful Accounts 95,010
Perkins Loan Program, Net \$2,395,768

Unexpended Plant Funds:

Capital Projects Funds Receivable \$235,000

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. No allowance for losses has been recorded for other receivables. The University has determined that an allowance is not necessary considering the collection history of these receivables. The capital projects fund receivable represents the remaining balance of \$235,000 in Capital Reserve Fund monies authorized and made available in fiscal year 1999 for the acquisition of scientific equipment.

NOTE 15 - 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 \$12,008,141. Of the total cost, approximately \$4,653,389

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 15 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

is unexpended at June 30, 2001. Of the unexpended balance at June 30, 2001, the University had remaining commitment balances of \$897,792 with certain property owners, engineering firms, construction contractors, and vendors related to these projects.

Major capital projects at June 30, 2001, which constitute construction in progress that are to be reclassified to the applicable plant asset categories when completed are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
Peabody Renovation	\$ 4,400,000	\$ 170,613
Old Sims Renovation	<u>7,608,141</u>	<u>7,184,139</u>
Total	<u>\$12,008,141</u>	<u>\$7,354,752</u>

The "amount expended" includes only capitalized costs.

At June 30, 2001, the University had in progress two major projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amount to \$1,289,220 at June 30, 2001, and the estimated cost to complete is \$310,780. At June 30, 2001, the University had remaining commitment balances of \$340,883 with certain parties related to these projects.

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

NOTE 16 - 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 or invested with or managed by financial institutions as authorized by the State Treasurer.

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

<u>Balance Sheet</u>	<u>Footnotes</u>
Cash and Cash Equivalents:	
Unrestricted Current Funds \$5,372,962	Cash on Hand \$ 190,842
Loan Funds 184,863	Deposits Held by State
Endowment and Similar Funds 708,589	Treasurer 7,808,790
Plant Funds:	Other Deposit 25,000
Unexpended 607,716	
Retirement of Indebtedness 1,111,631	
Agency Fund <u>38,871</u>	<u> </u>
<u>\$8,024,632</u>	<u>\$8,024,632</u>

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 16 - 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, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits

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 17 - ENDOWMENT AND SIMILAR FUNDS

The endowment and similar funds cash and cash equivalents are placed on deposit with the State Treasurer.

NOTE 18 - GIFTS

Gifts include resources donated to the University for unrestricted or restricted institutional purposes except those gifts received as additions to permanently restricted net assets which are recorded in other support. In fiscal year 2001 the University received a one time gift of \$235,000 from the Winthrop University Eagle Club for additional seating in the University's baseball stadium. The University recorded these funds as private gifts revenue in the unexpended plant funds subgroup.

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 Winthrop University Foundation, the Alumni Association of Winthrop University, and the Winthrop University Eagle Club. The financial statements of these entities are audited by independent auditors retained by them. 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 thereafter, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity

WINTHROP UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 19 - RELATED PARTIES (CONTINUED)

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 GASB pronouncements, some or all of these parties 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 funds. 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, 2001, was \$80,000. 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, 2001. 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. 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 parties. The \$63,970 receivable from the related parties (due from the Foundation) is separately reported 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, 2001 the University received \$580,254 from the Foundation which was restricted for scholarships and which is reported as restricted current funds private gifts

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 19 - RELATED PARTIES (CONTINUED)

revenue and scholarships expenditures. The University also reports as unrestricted current funds \$350,713 from the Foundation for alumni/development staff salaries and various unrestricted purposes. Of this amount, \$66,960 is reported as unrestricted private gifts revenue with the remaining amount accounted for in the unrestricted current funds as a reimbursement of alumni/development costs (a contra-expenditure). The Foundation reimburses the University for various administrative costs. Of the receivable, \$40,903 is a contra-expenditure and \$23,067 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, 2001, the Foundation held \$278,576 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 the Foundation's agency funds.

NOTE 20 - TRANSACTIONS WITH STATE ENTITIES

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

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

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

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, surplus property disposal fees, and interagency mail service. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2001 expenditures applicable to these transactions are not readily available.

See Note 2 for details concerning Education Improvement Act Funds received by the South Carolina Commission on Higher Education from the State Department of Education and allocated to the University.

NOTE 21 - CONTINGENCIES AND LITIGATION

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

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 21 - CONTINGENCIES AND LITIGATION (CONTINUED)

The South Carolina Department of Revenue is a defendant in a class action lawsuit challenging the constitutionality and administration of the State's Debt Setoff Act. An order was issued in February of fiscal year 2000 finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtors income tax refunds. However, an appeal and other proceedings are pending. The University, while not named as a defendant in the lawsuit, collected debts pursuant to the Debt Setoff Act. If the order is upheld, the loss could be \$146,700 to the University. In such a case, the University would seek collection from the original debtors.

The various federal programs administered by the University for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

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 four 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 damage losses in excess of 80 percent of replacement costs 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).

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.

WINTHROP UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 22 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts;
5. Builders Risk;
6. Natural disasters; and
7. Medical malpractice claims 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. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF. The University obtains director/officer liability coverage for all directors/officers for wrongful acts that may occur. The policy limit is \$2,000,000 for that coverage.

The University also 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.

In addition, the University obtains through commercial insurers certain specialized coverages as follows:

1. Crime policy for theft, disappearance, and destruction of cash and negotiable instruments that may occur during the two annual registration periods of 30 days each. The 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). The 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 and athletic camps. The policy limits are \$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.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 22 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (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 provided by the insurer for the fiscal year for all entities it insures. 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.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, 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, 2001, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2001, and the amount of the loss is reasonably estimable.

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

Self-Insurance

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 or business interruption and cessation of all University operations for an indeterminate period due to an earthquake or other natural disaster), it is more economical to manage such risks internally and fund repair/replacement costs resulting from such losses, should they occur, from unrestricted current funds resources and rely on state and federal government disaster assistance to cover uninsured losses. No uninsured events related to such self-insured risks of loss occurred in fiscal year 2001.

NOTE 23 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 2000 the University adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for periods beginning after June 15, 2000.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 23 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

This Statement establishes accounting and financial reporting guidance about when to report the results of nonexchange transactions involving cash and other financial and capital resources. This results in a change to the University's method of accounting for revenue recognition. In previous years revenue was recognized when received. The University had no nonexchange transactions that required restating beginning fund balances.

Effective July 1, 2000, the University corrected an error in the recording of payments for loan agreements under the State Treasurer's Office Master Lease Program. Previously the University reported these payments as current fund expenditures and as an addition to the investment in plant funds subgroup as retirement of indebtedness charged to current funds. Effective July 1, 2000, the note payments are recorded in the retirement of indebtedness plant fund subgroup. The change did not have an effect on the net increase (decrease) in the fund balances for the year. The following is a summary of the proforma effects on previously reported balances for the above correction.

Statement of Current Funds Revenues, Expenditures, and Other Changes:

	<u>2000</u>		<u>2001</u>	
	<u>As Previously</u>	<u>Pro Forma</u>	<u>Pro Forma</u>	<u>Actual</u>
	<u>Reported</u>	<u>Effect</u>	<u>Balance</u>	<u>Effect</u>
<u>Unrestricted Current Funds</u>				
Educational and General Expenditures:				
Institutional Support	\$5,558,628	\$(195,095)	\$5,363,533	\$5,541,329
Academic Support	5,541,162	(55,581)	5,485,581	5,441,795
Auxiliary Enterprises:				
Housing	5,297,180	(196,092)	5,101,088	4,898,425
Nonmandatory Transfers Out	(2,953,566)	(446,768)	(3,400,334)	(2,935,772)

Statement of Changes in Fund Balance:

Retirement of Indebtedness

Retirement of Indebtedness	479,654	354,437	834,091	883,570
Interest and Executory Fees on Indebtedness	214,724	92,331	307,055	361,576
Nonmandatory Transfers From Unrestricted Current Funds	2,700,000	446,768	3,146,768	2,447,849

[The amount reported in the parenthetical disclosure of retirement of indebtedness charged to current fund expenditures would change from the previously reported amount of \$484,334 to \$129,897].

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 23 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Effective July 1, 2000, the University corrected an error in the classification of costs associated with the purchase of an off-campus bookstore. In fiscal year 1997 when the University purchased the bookstore, all of the costs were capitalized as buildings. In the prior year, an appraisal of the bookstore was performed which determined that \$180,000 of the original cost should have been recorded as land. The change did not have an effect on the net increase (decrease) in the fund balances for the year. The following is a summary of the pro forma effects on previously reported balances for the above correction.

Balance sheet:

	2000			2001
<u>Investment in Plant</u>	<u>As Previously Reported</u>	<u>Pro Forma Effect</u>	<u>Pro Forma Balance</u>	<u>Actual Effect</u>
Land and Improvements	\$ 1,131,020	\$180,000	\$ 1,311,020	\$ 1,311,020
Buildings	82,058,286	(180,000)	81,878,286	85,150,192

NOTE 24 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

NOTE 25 - RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The University recorded expenditures of \$98,190 for lump sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001 is \$104,056.

State of South Carolina



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

September 28, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Winthrop University
Rock Hill, South Carolina

We have audited the basic financial statements of Winthrop University, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

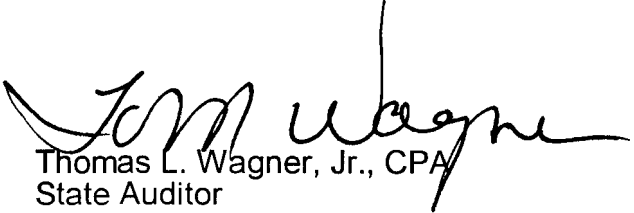
As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Winthrop University
September 28, 2001

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



Thomas L. Wagner, Jr., CPA
State Auditor

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