

SOUTH CAROLINA STATE UNIVERSITY
ORANGEBURG, 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

October 31, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
Orangeburg, South Carolina

We have audited the accompanying basic financial statements of South Carolina State 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 South Carolina State 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the 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.

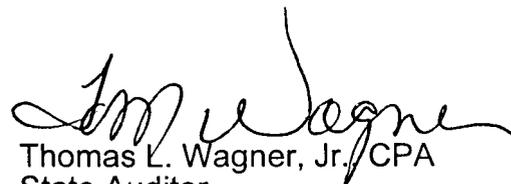
The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
October 31, 2001

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2001, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 of 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 timing of recognition for revenues, expenditures, and related assets and liabilities in nonexchange transactions, primarily private donations, pledges of gifts, and certain grant transactions. 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 18 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 accrual of expenditures and the related liabilities for compensated absences - annual accrual, salary and fringe benefits, and additions to plant assets 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

SOUTH CAROLINA STATE UNIVERSITY

Balance Sheet

June 30, 2001

ASSETS

CURRENT FUNDS

Unrestricted:

Student Accounts Receivable, Net (Note 13)	\$ 2,185,683
Inventories (Note 11)	717,919
Interest/Endowment Income Receivable	1,332
Prepaid Items	44,809
Other Receivables (Note 13)	70,205
Due from Restricted Current Fund (Note 12)	3,455,023

Total Unrestricted 6,474,971

Restricted:

Interest/Endowment Income Receivable	5,265
Grants Receivable - Federal	3,437,307
Grants Receivable - State	796,130
Grants Receivable - Nongovernmental	6,961

Total Restricted 4,245,663

Total Current Funds \$10,720,634

LOAN FUNDS

Cash and Cash Equivalents (Note 15)	\$ 212,489
Interest Income Receivable	1,959
Notes Receivable, Net (Note 13):	
Perkins Loan Program	1,303,343
Student Emergency Loan Funds	1,990
African American Teacher Loan Program	921,804
Education Improvement Act Loan Program	<u>291,609</u>

Total Loan Funds \$ 2,733,194

LIABILITIES AND FUND BALANCES

CURRENT FUNDS

Unrestricted:

Accounts Payable	\$ 1,016,680
Due to Unexpended Plant Funds (Note 12)	1,937,415
Accrued Payroll and Related Liabilities	1,324,987
Compensated Absences	1,493,791
Deferred Revenues	572,335
Student Deposits	82,715
Fund Balance	<u>47,048</u>

Total Unrestricted 6,474,971

Restricted:

Accounts Payable	448,430
Due to Unrestricted Current Fund (Note 12)	3,455,023
Accrued Payroll and Related Liabilities	91,748
Compensated Absences	370,479
Fund Balances - Restricted:	
Scholarships (Note 24)	(227,191)
Other Purposes	<u>107,174</u>

Total Restricted 4,245,663

Total Current Funds \$10,720,634

LOAN FUNDS

Fund Balances - Restricted:

Perkins Loan Fund	\$ 1,474,442
Donor - Restricted	1,258,752

Total Loan Funds \$ 2,733,194

SOUTH CAROLINA STATE UNIVERSITY
Balance Sheet
June 30, 2001

ASSETS

ENDOWMENT AND SIMILAR FUNDS

Cash and Cash Equivalents (Note 15)	\$ 599,444
Interest Income Receivable	1,792
Investments (Note 15)	<u>103,086</u>
Total Endowment and Similar Funds	<u>\$ 704,322</u>

PLANT FUNDS

Unexpended:	
Cash and Cash Equivalents (Note 15)	\$ 2,291,654
Interest Income Receivable	37,395
Capital Improvement Bond Proceeds	
Receivable (Note 3)	13,484,436
Due from Current Unrestricted Fund (Note 12)	<u>1,937,415</u>
Total Unexpended	<u>17,750,900</u>

Retirement of Indebtedness:

Cash and Cash Equivalents (Note 15)	416,913
Interest Income Receivable	<u>8,179</u>
Total Retirement of Indebtedness	<u>425,092</u>

Investment in Plant:

Land	1,628,558
Buildings and Improvements	72,932,825
Equipment	8,022,877
Library Books and Materials	5,109,817
Construction in Progress (Note 14)	<u>7,046,840</u>
Total Investment in Plant	<u>94,740,917</u>
Total Plant Funds	<u>\$112,916,909</u>

AGENCY FUNDS

Cash and Cash Equivalents (Note 15)	\$ 402,648
Accounts Receivable (Note 13)	<u>5,143</u>
Total Agency Funds	<u>\$ 407,791</u>

LIABILITIES AND FUND BALANCES

ENDOWMENT AND SIMILAR FUNDS

Fund Balances:	
Endowment - Restricted	\$ 440,224
Quasi-Endowment - Unrestricted	<u>264,098</u>
Total Endowment and Similar Funds	<u>\$ 704,322</u>

PLANT FUNDS

Unexpended:	
Accounts Payable	\$ 596,848
Retainages Payable	199,171
Fund Balances:	
Restricted	16,871,125
Unrestricted, Designated	<u>83,756</u>
Total Unexpended	<u>17,750,900</u>

Retirement of Indebtedness:

Accrued Bond Interest Payable	72,202
Fund Balances - Restricted	<u>352,890</u>
Total Retirement of Indebtedness	<u>425,092</u>

Investment in Plant:

Bonds Payable (Note 4)	5,650,000
Note Payable (Note 5)	162,722
Capital Lease Obligations (Note 6)	6,544
Net Investment in Plant	<u>88,921,651</u>
Total Investment in Plant	<u>94,740,917</u>
Total Plant Funds	<u>\$112,916,909</u>

AGENCY FUNDS

Deposits Held for Others	\$ 407,791
Total Agency Funds	<u>\$ 407,791</u>

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	CURRENT FUNDS			ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTAL (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS		RETIREMENT OF		INVESTMENT IN PLANT	
					UNEXPENDED	INDEBTEDNESS		
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$57,611,696	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$57,611,696
State Appropriations (Note 2)	-	1,138,769	252,000	-	-	-	-	1,390,769
Federal Grants and Contracts - Restricted	-	20,217,602	-	-	210,673	14,236	-	20,442,511
State Grants and Contracts - Restricted	-	1,091,808	-	-	-	-	-	1,091,808
Nongovernmental Grants and Contracts	-	85,826	-	-	-	-	-	85,826
Private Gifts - Restricted	-	200,700	-	-	-	-	-	200,700
State Capital Improvement Bond Proceeds (Note 3)	-	-	-	-	3,000,000	-	-	3,000,000
Interest Income - Restricted	-	-	11,434	8,113	86,467	48,516	-	154,530
Endowment Income - Restricted	-	76,451	-	-	-	-	-	76,451
Interest and Fees on Student Loans Receivable	-	-	218,907	-	-	-	-	218,907
Expended for Plant Facilities (Including \$702,475 Charged to Current Funds Expenditures)	-	-	-	-	-	-	2,816,035	2,816,035
Retirement of Indebtedness	-	-	-	-	-	-	694,176	694,176
Student Tuition and Fees	-	-	-	-	-	291,482	-	291,482
Other Additions	-	-	-	(1,008)	-	-	-	(1,008)
Total Revenues and Other Additions	57,611,696	22,811,156	482,341	7,105	3,297,140	354,234	3,510,211	88,073,883
Expenditures and Other Deductions:								
Educational and General Expenditures	48,897,426	22,621,077	-	-	-	-	-	71,518,503
Auxiliary Enterprises Expenditures	7,729,843	-	-	-	-	-	-	7,729,843
Indirect Cost Recoveries Remitted to State	347,613	-	-	-	-	-	-	347,613
Indirect Costs Recovered	-	654,777	-	-	-	-	-	654,777
Loan Cancellations and Write-Offs	-	-	222,454	-	-	-	-	222,454
Provision for Uncollectible Loans	-	-	154,904	-	-	-	-	154,904
Administrative and Collection Costs	-	-	3,430	-	-	-	-	3,430
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$3,438,996)	-	-	-	-	5,552,556	-	-	5,552,556
Retirement of Indebtedness	-	-	-	-	-	694,176	-	694,176
Interest on Indebtedness	-	-	-	-	-	363,459	-	363,459
Disposal of Plant Facilities	-	-	-	-	-	-	3,176,718	3,176,718
Total Expenditures and Other Deductions	56,974,882	23,275,854	380,788	-	5,552,556	1,057,635	3,176,718	90,418,433

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	CURRENT FUNDS		LOAN AND SIMILAR FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS		TOTAL (MEMORANDUM ONLY)	
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT		INVESTMENT
						OF INDEBTEDNESS		IN PLANT
Transfers Among Funds - Additions/(Deductions):								
Mandatory for Payment of Principal and Interest:								
Educational & General	(247,947)	-	-	-	-	247,947	-	
Auxiliary Enterprise Funds - Housing	(454,528)	-	-	-	-	454,528	-	
Nonmandatory: (Note 6)								
Transfers of Excess Debt Services Funds to be Used for Operations	184,453	-	-	-	-	(184,453)	-	
Debt Service	(357,753)	-	-	-	-	357,753	-	
Net Transfers Between Current Funds	<u>751</u>	<u>(751)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Transfers	<u>(875,024)</u>	<u>(751)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>875,775</u>	<u>-</u>	
 Net Increases (Decreases) for the Year	(238,210)	(465,449)	101,553	7,105	(2,255,416)	172,374	333,493	
 Fund Balances (Deficit), Beginning of Year, as Restated (Note 23)	<u>285,258</u>	<u>345,432</u>	<u>2,631,641</u>	<u>697,217</u>	<u>19,210,297</u>	<u>180,516</u>	<u>88,588,158</u>	<u>111,938,519</u>
 Fund Balances, End of Year	<u>\$ 47,048</u>	<u>\$(120,017)</u>	<u>\$2,733,194</u>	<u>\$704,322</u>	<u>\$16,954,881</u>	<u>\$352,890</u>	<u>\$88,921,651</u>	<u>\$109,593,969</u>

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

SOUTH CAROLINA STATE 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 Tuition and Fees	\$18,782,300	\$ -	\$18,782,300
State Appropriations (Note 2)	28,325,917	1,138,769	29,464,686
Federal Grants and Contracts	654,777	20,027,523	20,682,300
State Grants and Contracts	-	1,091,808	1,091,808
Nongovernmental Grants and Contracts	-	85,826	85,826
Private Gifts	77,716	200,700	278,416
Endowment Income	10,658	76,451	87,109
Interest Income - Auxiliary Enterprises	11,890	-	11,890
Sales and Services of Educational and Athletic Activities	1,290,017	-	1,290,017
Sales and Services of Auxiliary Enterprises	7,796,844	-	7,796,844
Other Sources	<u>661,577</u>	<u>-</u>	<u>661,577</u>
Total Current Revenues	<u>57,611,696</u>	<u>22,621,077</u>	<u>80,232,773</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	20,623,116	4,041,467	24,664,583
Research	779,650	2,509,277	3,288,927
Public Service	311,893	4,250,694	4,562,587
Academic Support	6,010,484	1,373,909	7,384,393
Student Services	7,235,881	670	7,236,551
Institutional Support	5,061,390	2,367,328	7,428,718
Operation and Maintenance of Plant	7,112,658	-	7,112,658
Scholarships and Fellowships	<u>1,762,354</u>	<u>8,077,732</u>	<u>9,840,086</u>
Total Educational and General Expenditures	<u>48,897,426</u>	<u>22,621,077</u>	<u>71,518,503</u>
Mandatory Transfers for Principal and Interest	<u>247,947</u>	<u>-</u>	<u>247,947</u>
Total Educational and General	<u>49,145,373</u>	<u>22,621,077</u>	<u>71,766,450</u>
Auxiliary Enterprises:			
Expenditures	<u>7,729,843</u>	<u>-</u>	<u>7,729,843</u>
Mandatory Transfers for Principal and Interest	<u>454,528</u>	<u>-</u>	<u>454,528</u>
Total Expenditures and Mandatory Transfers	<u>57,329,744</u>	<u>22,621,077</u>	<u>79,950,821</u>

SOUTH CAROLINA STATE 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>
Other Transfers and Additions/(Deductions) :			
Nonmandatory Transfers Out	184,453	-	184,453
Net Transfers Between Current Funds	751	(751)	-
Debt Service	(357,753)	-	(357,753)
Excess of Restricted Receipts Over Transfers to Revenues	-	(464,698)	(464,698)
Indirect Cost Recoveries Remitted to the State General Fund	<u>(347,613)</u>	<u>-</u>	<u>(347,613)</u>
 Total Other Transfers and Additions/ (Deductions)	 <u>(520,162)</u>	 <u>(465,449)</u>	 <u>(985,611)</u>
 Net Increases (Decreases) in Fund Balances	 <u>\$(238,210)</u>	 <u>\$(465,449)</u>	 <u>\$(703,659)</u>

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

SOUTH CAROLINA STATE 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 South Carolina State University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (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.

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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30,

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 59-127-10 of the Code of Laws of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees, whose members are appointed by the Governor with the advice and consent of the Senate, is the governing body of the University. 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 (and the results of operations and cash flows of its discretely presented component units) 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

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

Fund Accounting - 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.

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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

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 and in Note 16 - Pledges of Gifts. 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, bookstore, food services, and student health services. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$(376,600) 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.

SOUTH CAROLINA STATE 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, term 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. 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 University currently has no term endowments.

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. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness, and federal interest subsidies. 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.

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 and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. 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, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave (and compensatory holiday and overtime leave) earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the University's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2001. 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 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 July 1, 1990 and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to July 1, 1990 are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

Construction expenditures are recorded at cost in the unexpended plant funds (or renewals and replacements funds) when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Library books and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation and are capitalized. Periodicals and microfilm are not capitalized.

Computer software includes 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 is amortized on a straight-line basis.

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 and computer software with a unit value in excess of \$100,000 and a useful life in excess of one year. Under this policy, the University has no capitalized software.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. The University uses an independent book service index to value library material deletions. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Bond Discounts, Premiums, and Issuance Costs and Amortization

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as elements of interest and other charges on indebtedness over the lives of the bond issues using the straight-line method. Amortization of deferred charges is reported as an addition to interest charges and other charges on indebtedness.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned. Also included are amounts arising from gifts and voluntary nonexchange transactions received before eligibility requirements, which are discussed under Gifts and Other Nonexchange Transactions are met.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenues and Unearned Student Revenues (Continued)

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, security deposits for possible room damage and key loss, and library deposits. 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.

Fee Waivers

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

Educational Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from athletic programs, off-campus programs, the museum, radio station, Felton Laboratory School, planetarium, and various similar programs.

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), and "Imposed nonexchange revenues" (fines and penalties) (and "Government-mandated nonexchange transactions").

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts and Other Nonexchange Transactions (Continued)

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.

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 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 of 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 year 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. As of June 30, 2001 the University had no gifts or other voluntary nonexchange transaction recorded as deferred revenue.

Prepaid Items

Expenditures for insurance, postage, and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 14.

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. The University 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.

For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 14.

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.

"Memorandum Only" Column

The total column on the statement of changes in fund balances is captioned "memorandum only" to indicate that it presents aggregations 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 aggregate of this data.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-raising Cost

The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the University. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

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 5J of Part IA of the 2000-2001 Appropriation Act. In addition to its State appropriations the University received from the State Commission on Higher Education allocations of Education Improvement Act funding of \$261,000 under Proviso 1A.30 of the 2001 Appropriation Act for the Teacher Recruitment Program under Proviso 1A.30 which is reported as state grants and contracts revenue in restricted current funds.

Proviso 72.43 of the 2001-02 Appropriation Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent with limitations similar to those for the prior years. For fiscal year 2001, the University carried forward \$126,440 for its Public Service Administration activities. The following page presents 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	\$22,408,842
Less 1% Mid-Year Base Appropriation Reduction	(248,955)
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.9.)	937,745
401K Employee Deferred Compensation Match (Proviso 72.44)	34,867
From Supplemental Appropriation of Fiscal Year 1999-2000 Surplus State General Fund Revenues (2000 Joint Resolution R453, H3649) for:	
Transportation Center	500,000
DHEC/DLLR Health & Safety Inspection	905,375
Business School Accreditation	500,000

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

Appropriation Allocations from the State

Commission on Higher Education (CHE):

From Supplemental Appropriation of Fiscal
Year 1999-2000 Surplus State General Fund

Revenues for:

Access and Equity Competitive Grants	14,800
Need-Based Student Grants	15,942
Academic Endowment Incentive (Code of Laws Section 59-118-40)	24,843
Competitive Research Grants	52,261

From Capital Reserve Fund Appropriation

(June 2000 Joint Resolution R467,H4776) for:

Performance Funding - Current	554,139
Performance Funding - Increase	432,118

From the Children's Education Endowment Fund for:

Palmetto Fellows Scholarships	25,000
Need-Based Student Grants	425,929

For Higher Education Partnership Assistance (HEAP) 700

For Performance Funding (Proviso 5A.6) 1,663,173

For African-American Teacher Loan Program (Proviso 5A.13) 280,000

For Access and Equity Desegregation Funding
(Proviso 5A.5) 105,319

For LIFE Scholarship (2000 Act 453) 671,198

For Academic Endowment Incentive Match (Act of 1997,
Code of Laws 59-118-40) 10,950

Public Service Administration Appropriation 226,440

Appropriation Transfer from the State Department
of Education for the Felton Laboratory School 204,000

Total State Appropriations Revenue - Accrual Basis 29,744,686

Less: Higher Education Grant/Scholarship Funding

Reported in Restricted Current Funds:

State Appropriations	1,138,769
State Grants and Contracts	28,000

Reported in Loan Funds 252,000

1,418,769

Funding Reported in Unrestricted Current Funds \$28,325,917

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2001 and in prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue 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:

Funds allocated under act 453 of 2000 were received by the University during fiscal year 2001. The funds will be used for Lowman Hall renovation and deferred maintenance.

<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>
638 of 1988	\$ 642,500	\$ 634,580	\$ -	\$ 7,920
111 of 1997	5,600,000	4,383,691	660,424	555,885
28 of 1999	17,500,000	3,136,144	4,443,225	9,920,631
453 of 2000	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
Total	<u>\$26,742,500</u>	<u>\$8,154,415</u>	<u>\$5,103,649</u>	<u>\$13,484,436</u>

NOTE 4 - 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>
Student and Faculty Housing Revenue Bonds-Series 1991A	4.5%-6.7%	6/01/12	\$3,490,000
Stadium Improvement Revenue Bonds Series 1993A	3.0%-5.5%	01/01/13	<u>2,160,000</u>
Total Included in Investment in Plant			<u>\$5,650,000</u>

The University receives interest subsidies from the U.S. Department of Education designated for the student and faculty housing revenue bonds. The various bond indentures restrict the use of particular revenue sources. Revenue received for dormitory and married student housing and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. All stadium revenue which includes admission fees and special student fees is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on stadium improvement revenue bonds.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

The University is required to establish debt reserve funds for the purpose of repaying the student and faculty housing revenue bonds and stadium improvement revenue bonds. In lieu of cash and investments on deposit, the University has purchased a surety bond for each of the revenue bond issues which will satisfy the debt service requirements upon notice that there are insufficient funds to do so. Repayment of the principal and interest will be guaranteed by Municipal Bond Investors Assurance Corporation pursuant to its insurance policies through final maturity for each of these bonds.

For the stadium improvement revenue bonds, the University must maintain its admission fees and special student fees at amounts necessary to maintain certain specified funding requirements. For the student and faculty housing revenue bonds, the University must generate net revenues available for debt service of not less than 120 percent of debt service payments due in each bond year. The University continued to fall short of the student and faculty housing revenue bonds net revenue requirement. \$358,807 was the shortfall in the current year (\$609,544 in fiscal year 2000). The University is considering raising housing fees to cover the above shortfall.

In addition, the student and faculty housing and stadium improvement revenue bonds resolutions require the University to establish housing and stadium improvement funds for the purpose of building up and maintaining reasonable reserves for contingencies, improvements, expansions, and renovations of those facilities through deposits made semi-annually each June 15 and December 15. These reserve balances are to be funded each fiscal year with the lesser of \$600,000 or 60 percent of the net fund balance. At June 30, 2001, the reserve balances of the stadium and housing improvement accounts were \$1,261,535 and \$1,152,931. These funds are included in the restricted fund balance in unexpended plant funds.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2003, in whole at any time or in part on any January 1 or July 1, upon thirty (30) days' notice, at par.

The student and faculty housing revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after June 1, 2001, in whole at any time or in part on any June 1 or December 1, upon thirty (30) days' notice, at par. As of fiscal year-end, none of these bonds have been called for redemption.

All of the bonds are payable in semiannual installments plus interest.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

Amounts including interest required to complete payment of the revenue 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	\$ 230,000	\$ 221,988	\$ 451,988
2003	245,000	208,648	453,648
2004	260,000	194,192	454,192
2005	275,000	178,463	453,463
2006	290,000	161,550	451,550
2007 through 2012	<u>2,190,000</u>	<u>533,870</u>	<u>2,723,870</u>
Total Obligations	<u>\$3,490,000</u>	<u>\$1,498,711</u>	<u>\$4,988,711</u>

Amounts as of June 30, 2001, including interest required to complete payment of the stadium improvement revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 140,000	\$107,413	247,413
2003	140,000	101,533	241,533
2004	155,000	95,512	250,512
2005	155,000	88,692	243,692
2006	170,000	81,640	251,640
2007 through 2013	<u>1,400,000</u>	<u>317,115</u>	<u>1,717,115</u>
Total Obligations	<u>\$2,160,000</u>	<u>\$791,905</u>	<u>\$2,951,905</u>

Mandatory transfers from auxiliary enterprises revenue for debt service on student and faculty housing revenue and stadium improvement revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

On March 9, 1983, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the student faculty housing revenue bonds, Series 1972, are considered defeased, the liability for the defeased bonds has been removed from the investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2001, of bonds outstanding, \$210,000 are considered defeased.

The University reported principal retirements and interest expenditures related to the bonds as follows for the year ended June 30, 2001.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
Student and Faculty Housing Revenue	\$220,000	\$234,702
Stadium Improvement Revenue	<u>135,000</u>	<u>110,180</u>
Total	<u>\$355,000</u>	<u>\$344,882</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

There was no interest capitalized as part of the cost of construction in progress in fiscal year 2001.

NOTE 5 - NOTES PAYABLE

On November 24, 1997, the University acquired financing of \$1,200,000 through the Signet Leasing and Financial Corporation to retire an interim note payable to the State's installment purchase program. The proceeds of the interim note were used to upgrade the University's network infrastructure. Under the State Treasurer's Office's Master Lease Program, the First Union National Bank purchased the interim note in July 1998. The term of the secured note is for 48 months with a 4.85 percent annual interest rate and installments due quarterly beginning February 24, 1998. The note matures on November 24, 2001. Installments are paid from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the note. As of June 30, 1998, the entire \$1,200,000 had been expended, and the related payable is presented in the investment in plant subgroup of the plant funds group.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$162,722	\$2,913	\$165,635

Payments for fiscal year 2001 were \$331,269 of which \$17,160 represented interest.

NOTE 6 - LEASE OBLIGATIONS

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

Future commitments for capital 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 Equipment</u>
2002	\$6,620	\$160,699
2003	-	102,830
2004	-	34,292
2005	-	<u>23,909</u>
Total Minimum Lease Payments	<u>6,620</u>	<u>\$321,730</u>
Less: Interest	<u>76</u>	
Principal Outstanding	<u>\$6,544</u>	

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Capital Lease

During fiscal year 1998, the University entered into a 48-month, \$92,182 capital lease for grounds maintenance equipment. The capital lease is payable in monthly installments from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the capital lease and expires on September 25, 2001. Capital lease expenditures for fiscal year 2001 were \$26,484 of which \$1,417 represented interest. The interest rate for the capital lease is 6.99 percent.

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

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2002 through 2005. Certain operating leases provide for renewal options for a period of one year at their fair rental value at the time of renewal. 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.

Total operating lease expenditures in 2001 were \$481,470. The University reports these costs in the applicable unrestricted current funds functional expenditure categories.

NOTE 7 - NONMANDATORY TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For the student and faculty housing revenue bonds and the stadium improvement revenue bonds issued by the University, a written request for the transfer of funds in excess of required minimum balances is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer. The University reports its general capital funding account in the unexpended plant funds subgroup and the unexpended balance thereof as unrestricted, designated fund balance. Unexpended balances of the specific capital projects accounts are reported as restricted fund balances in the unexpended plant funds subgroup. During fiscal year 2001, the University did not transfer funds to or from the general capital funding account in the unexpended plant funds subgroup.

In fiscal year 2001, the University transferred \$184,453 of funds in excess of required debt service payments from the retirement of indebtedness subgroup to the unrestricted current funds for operations. In the current fiscal year, \$83,756 was transferred from the retirement of indebtedness plant funds subgroup to unexpended plant funds for continued capital projects.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 8 - 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 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 employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group-life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 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 \$2,036,537, \$1,963,252, and \$1,787,895, 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 \$41,834 in the current fiscal year at the rate of .15 percent of compensation.

SOUTH CAROLINA STATE UNIVERSITY

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NOTE 8 - PENSION PLANS (CONTINUED)

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

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 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 \$70,158, \$72,909, and \$67,720, 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 \$1,362 and accidental death insurance contributions of \$1,362 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).

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 8 - PENSION PLANS (CONTINUED)

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 plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

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 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 \$258,980 (excluding the surcharge) from the University as employer and \$205,811 from its employees as plan members. In addition, the University paid \$5,145 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated 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.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$2,310,002 for the year ended June 30, 2001. As discussed in Note 8, the University paid \$783,351 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 University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

NOTE 10 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the 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. 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.

The University contributed \$34,867 for 2000-2001 from general fund sources and \$8,520 from Federal and Other sources.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 11 - 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>	
Books	First-in, first-out	\$558,438
Retail Store	First-in, first-out	147,813
Food - Dining Hall	First-in, first-out	10,532
Gasoline	First-in, first-out	<u>1,136</u>
		<u>\$717,919</u>

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, for its general operating transactions, primarily those accounted for in the current funds group, the University operates out of one cash account which monies are on deposit in the general deposit account in the State's internal cash management pool. That cash account 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 general deposit account of the State's cash management pool. 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 Fund	\$3,455,023	\$1,937,415
Restricted Current Fund	-	3,455,023
Unexpended Plant Fund	<u>1,937,415</u>	<u>-</u>
Totals	<u>\$5,392,438</u>	<u>\$5,392,438</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 13 - 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:

Unrestricted Current Funds:

Student Accounts Receivable:	
Student Tuition and Fees	\$2,175,231
Auxiliary Enterprises Fees	<u>575,373</u>
	2,750,604
Less: Allowance for Doubtful Accounts	<u>564,921</u>
Net	<u>\$2,185,683</u>

Other Receivables \$ 70,205

Loan Funds:

Notes Receivable:	
Perkins Loan Program	\$1,828,270
Less: Allowance for Doubtful Accounts	<u>524,927</u>
Net	<u>\$1,303,343</u>
Student Emergency Loan Funds: #2	\$ 2,630
Student Emergency Loan Fund	<u>(640)</u>
Student Loan Fund, Net	<u>\$ 1,990</u>
African American Teacher Loan Program	\$1,023,887
Less: Allowance for Doubtful Accounts	<u>102,083</u>
Net	<u>921,804</u>
Education Improvement Act Loan Receivable	\$ 328,816
Less: Allowance for Doubtful Accounts	<u>37,207</u>
Net	<u>\$ 291,609</u>

Total net notes receivable in loan funds was \$2,518,746 at June 30, 2001.

Agency Funds:

Accounts Receivable:	
Due from Students	<u>\$5,143</u>

With minor exceptions, allowances for losses for student loan receivables and the various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2001, the allowances for student loans receivable in loan funds and student tuition and fees and auxiliary enterprises accounts receivable in unrestricted current funds are valued at \$664,217, \$386,505 and \$178,416, respectively.

NOTE 14 - 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 several years at an estimated total cost of \$19,466,448. Of the total cost, \$12,419,608 is

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

unexpended at June 30, 2001. The total expended through June 30, 2001, is reported as construction in progress, none is related to substantially complete and in use projects. Major capital projects at June 30, 2001, which constitute construction in progress that are to be capitalized when completed are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
1890 Extension Facilities	\$ 5,237,127	\$4,401,341
Hodge Hall Renovations	12,144,975	2,558,861
Camp Harry Daniels Renovation	600,000	72,209
New Living Learning Center	175,000	10,229
Crawford - Zimmer	300,000	4,200
Lowman Hall	<u>1,000,000</u>	<u>-</u>
Total	<u>\$19,457,102</u>	<u>\$7,046,840</u>

At June 30, 2001, the University had in progress other capital 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 \$8,363,135 at June 30, 2001, and the estimated cost to complete them is approximately \$6.0 million.

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

NOTE 15 - DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers. Deposits and investments of the University's component units are not under the State Treasurer's control.

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	\$3,923,148	Deposits Held by State	\$4,098,711
Investments	103,086	Treasurer	
		Other Deposits -	
		Financial Institutions	(210,563)
		Loan Participation Deposit	35,000
		Investments Held by State	
		Treasurer	95,900
		Other Investments	<u>7,186</u>
	<u>\$4,026,234</u>		<u>\$4,026,234</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 15 - DEPOSITS AND INVESTMENTS (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.

As disclosed in Note 4 and required by bond indentures, \$2,414,466 of restricted cash is on deposit for the purpose of maintaining reasonable reserves for contingencies and for improvement, expansions, and renovations of the facilities.

Other Deposits

Of the University's other deposits, \$(210,563) is reported in unrestricted current funds at year-end in an account which is covered by \$200,000 federal depository insurance or by collateral held by the University's custodial bank in the University's name. In addition, loan funds include \$35,000 restricted cash for a loan participation deposit.

The University's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name
- (3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the entity's name.)

A summary of June 30, 2001, bank balances by risk category follows:

	Category			Bank Balance	Reported Amount
	1	2	3		
Cash Deposits	\$ <u>235,000</u>	\$ <u>444,280</u>	\$ <u>-</u>	\$ <u>679,280</u>	\$ <u>(175,563)</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Held by State Treasurer

The accounts classified as "Investments Held by State Treasurer" in the financial statements comprise investments held for the State agency and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities, some of which may be included in one of the State Treasurer's investment pools.

These investments consist of Series 1894 Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer as Trustee until they mature in 2035. While outstanding the State is required to pay the University 6 percent per year. Because there is no readily determinable fair value of these investments, they have been assigned a fair value equal to their historical cost value.

Other Investments

"Other Investments" consist of investments in common stock which are stated at fair value and include unrealized depreciation of \$11,008. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on these investments have been recorded in the fund holding the investments. Earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category.

A summary of these investments at June 30, 2001, by category of credit risk follows:

	Category			Reported	Fair
	1	2	3	Amount	Value
Common Stock	\$7,186	\$ -	\$ -	\$7,186	\$7,186

The investment listed above was held throughout the fiscal year and the balance therein fluctuated minimally from the fiscal year-end balance.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 16 - 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 17 - PLEDGES OF GIFTS

Gifts are nonexchange transactions. Effective July 1, 2000, the University recognizes revenue from pledges when all eligibility requirements are met, provided the pledge is verifiable and the resources are measurable and probable of collection. Pledges are accounted for at their estimated net realizable value. The estimated net realizable value comprehends the present value of long-term pledges and reductions for any allowance for uncollectible pledges.

NOTE 18 - 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. Financial statements are not available for these entities. They include the South Carolina State Educational Foundation (the Foundation), the S.T.A.T.E. Club, and the South Carolina State University Alumni Association. 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, management reviewed its relationships with the entities described in this note. Annually, the University reevaluates its relationships with these organizations for reporting purposes. The University exclude these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying circumstances under which organizations that do not meet financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that parties may become component units of the University and/or part of the financial reporting entity.

Various transactions occur between the University and these parties. A summary of these transactions and balances as of and for the year ended June 30, 2001, follows:

South Carolina State College Educational Foundation

The Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of the University. The Foundation's activities are governed by its Board of Directors. The University recorded gift receipts of \$949,098 from the Foundation in unrestricted current funds and restricted current funds as private gift revenue additions for the fiscal year ending June 30, 2001. These funds were awarded for athletic scholarships and presidential scholarships. In addition, the Foundation

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 18 - RELATED PARTIES (CONTINUED)

South Carolina State College Educational Foundation (Continued)

paid unrestricted current fund obligations of \$270,471 on behalf of the University for the athletics program for the current fiscal year which are reported in private gift revenue and student services expenditures. The Foundation reimburses the University for any purchases made by the University for the Foundation.

The S.T.A.T.E. Club

The S.T.A.T.E. Club is a separately chartered entity organized to promote and support intercollegiate athletics at South Carolina State University. The S.T.A.T.E. Club's actions are governed by its Board of Directors. The Club had no transactions with the University for the fiscal year ended June 30, 2001, and did not require the time or services of any University employees.

South Carolina State University Alumni Association

The South Carolina State University Alumni Association is a separately chartered entity organized to develop and maintain the spirit of the University; disseminate information; promote education and scholarship; and cement the bonds of fellowship and loyalty to the University. The Association's actions are governed by the Officers of the Association. This entity had no transactions with the University for the fiscal year ending June 30, 2001 and did not require the time or services of any University employees.

NOTE 19 - 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; check preparation, banking, bond trustee, and investment 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, retirement, and telephone services. 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.

The University provided no services to other State agencies during the year.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 20 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including contractual issues, personal injury, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these cases is reasonably possible. However, an estimated liability cannot be determined at this time. Therefore, an estimated liability has not been recorded.

The South Carolina Department of Revenue is a defendant in a class action challenging the constitutionality and administration of the State's Debt Set Off Act. An order was issued in February 2000 finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against debtors' income tax refunds. However, an appeal and other proceedings are pending. If the opinion is upheld and the debts that have been withheld have to be repaid, the loss could be approximately \$400,000 to the University. In such a case, the University would seek collection from the original debtors.

NOTE 21 - 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 Program (TERI). 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 the unused balance of annual vacation leave earned during the program period.

The University recorded expenditures of approximately \$288,850 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted and restricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. Of that amount, \$31,075 to be paid in fiscal year 2002 is also reported as an accrued payroll liability at June 30, 2001. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001, is \$84,737.

NOTE 22 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 22 - RISK MANAGEMENT (CONTINUED)

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.

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. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries and clinics.

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 governmental entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The University carries builder's risk insurance through commercial carriers for all construction projects.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all losses arising from theft or misappropriation of assets up to \$100,000 per occurrence.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the current funds fund subgroups.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 22 - RISK MANAGEMENT (CONTINUED)

The University carries total liability insurance coverage at \$1 million per occurrence for its board members.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, policy limits, unreported claims, underinsurance, and co-insurance for coverage 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. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 (including the effects of inflation and other societal and economic factors) and using past experience adjusted for current trends and other factors that would modify past experience.

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

NOTE 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. 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. Its implementation resulted in a change to the University's timing of recognition for revenues, expenditures, and related assets and liabilities in such transactions, primarily private donations, pledges of gifts, and certain grants transactions of this University. Those three are voluntary nonexchange transactions which are recognized when all eligibility requirements are met. "Certain grants" refers to nonexchange federal, state, or private grants. In previous years private donations, pledges of gifts, and certain grants were recognized when the University received the funds. The University had no nonexchange transactions that required restatement of beginning fund balances.

The University detected and corrected the following errors involving the application of accounting principles and restated the July 1, 2000, beginning fund balances.

Generally accepted accounting principles (GAAP) for governmental entities requires proper valuation and classification of costs and related assets and liabilities.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

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

The University incorrectly posted the accrual for compensated absences in the prior year. The entry posted used the wrong amount. This year a prior period adjustment was posted to increase fund balance.

Also, the restatement adjustment includes payroll and fringe costs that were charged to the restricted current fund in the prior year that should have been charged to the unrestricted current fund. The adjustment amount is the net effect. (See below.) The effect on fund balance was a decrease to fund balance.

	June 30, 2000		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Fund	\$(933,588)	\$1,218,846	\$285,258

GAAP requires proper valuation and classification of costs and related assets and liabilities. The University made corrections for salaries and fringes expenditures posted to incorrect accounts and current funds subgroups. The salaries and fringes were posted to the restricted current fund when the expenditures should have been posted to the unrestricted current fund.

	June 30, 2000		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Restricted Current Fund	\$342,679	\$2,753	\$345,432

GAAP establishes the timing for capitalization of plant asset costs and specifies the nature of costs to be capitalized by plant asset category in accordance with the entity's capitalization criteria. The University corrected the capitalized values of certain moveable equipment, building additions, and construction in progress to properly include retainage payable on capital projects and moveable equipment and to properly classify capital assets by fixed asset category.

	June 30, 2000		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Investment in Plant- Plant Fund	\$86,395,145	\$2,193,013	\$88,588,158

GAAP requires the proper valuation of assets and expenditures. The prior years reported included adjusting entries that were incorrectly posted. The entry for the allowance for doubtful accounts as a contra-asset account net with the Perkins receivable in the Loan Funds subgroup was incorrectly posted to the Provision for Uncollectible Loans account.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2001

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

	<u>June 30, 2000</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Loan Funds	\$2,021,567	\$610,074	\$2,631,641

NOTE 24 - DEFICIT FUND BALANCES

The scholarships portion of the restricted current funds reports a deficit fund balance of \$227,191 at fiscal year-end. The deficit fund balance is due to the University paying out more scholarships than revenue received for that purpose. Revenues for scholarships were \$347,505 whereas expenditures were \$574,696. The University does not yet have a corrective action plan in place.

AUDITOR'S COMMENTS

State of South Carolina



Office of the State Auditor

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL

October 31, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
Orangeburg, South Carolina

We have audited the basic financial statements of South Carolina State University as of and for the year ended June 30, 2001, and have issued our report thereon dated October 31, 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 South Carolina State 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in Section B of the Auditor's Comments section of this report. The noncompliance issues disclosed in our report are in regards to the following: Timely Invoice Payment, Expenditure Cutoff, Final Pay, Termination Dates, Employee Performance Evaluations, Personnel Forms (I-9), Payroll at June 30, Fee Waivers, Bond Resolution Requirement and Auxiliary Enterprises.

Internal Control Over Financial Reporting

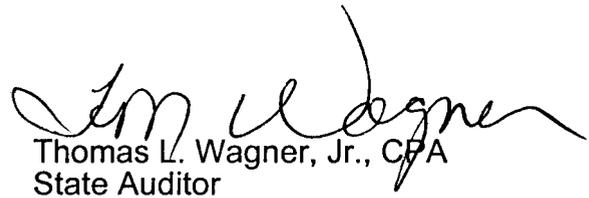
In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
October 31, 2001

conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in Section B of the Auditor's Comments section of this report.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Governor and of the governing body and management of the University and is not intended to be and should not be used by anyone other than those specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

SECTION A – STATUS OF PRIOR FINDINGS

During the engagement, we reviewed the status of corrective action taken on each of the findings reported in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 2000, and dated November 9, 2000. We determined that the University has taken adequate corrective action on the payroll findings regarding insurance deductions and labor cost distribution and on bank reconciliation procedures. All of the other deficiencies reported in the prior year have been repeated in this report as follows:

<u>FY 2000 Comment Title</u>	<u>FY 2001 Comment Title</u>
Disbursement Voucher Payments	Disbursement Voucher Payments - Timely Invoice Payment
Loan Funds	Loan Funds – Loan Management System (LMS) – Loan Balances
Payroll Processing Procedures - Other Deduction Forms	Personnel and Payroll Processing Procedures - Personnel Forms (I-9)
Payroll Processing Procedures – Performance Evaluations	Personnel and Payroll Processing Procedures - Employee Performance Evaluations
Payroll Processing Procedures - Payments to Employees Terminating Employment	Personnel and Payroll Processing Procedures – Final Pay Termination Dates
Payroll Processing Procedures – Leave Liability	Personnel and Payroll Processing Procedures Final Pay
Bond Resolution Requirement	Bond Resolution Requirement
Auxiliary Enterprises	Auxiliary Enterprises

SECTION B – REPORTABLE CONDITIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements.

DISBURSEMENT VOUCHER PAYMENTS

Timely Invoice Payment

We tested 60 disbursement vouchers and determined that six (with a total value of \$73,697) were not paid within 30 working days. [Similar deficiencies were presented in our comments resulting from the fiscal year 1999 and fiscal year 2000 audits of the University's financial statements.] They were paid in the range of 36 working days to over a year after the goods or services were received. We were told the accounts payable department could not process some vouchers timely because various University departments did not timely submit receiving documentation or failed to promptly return invoices sent to them for signed approval to release funds. This situation creates a negative relationship with vendors and violates both State law and University policy. Section 11-35-45 of the 1976 Code of Laws of South Carolina, as amended, (the State Code of Laws) requires payment for goods and services within 30 working days of acceptance of the goods or services and receipt of a proper invoice. Furthermore, University policy requires prompt payment of obligations.

We recommend that the University develop and implement written procedures in support of its prompt payment policy to ensure that receipt of procured items is properly documented at the time of receipt; that completed receiving and other documentation is timely submitted by departments to accounts payable; and that invoices are timely processed for payment. All departments should be notified of the requirements and these procedures and of the extreme importance of strictly adhering to them.

Telephone Charges

Of the 60 disbursement vouchers tested, the amount of one (\$48,548) differed from the sum of the related invoices in the attached support. The voucher package contained \$48,961 in invoices for July and August telephone charges. The University did not pay the \$413 difference related to charges for unauthorized calls made by students per documentation on the invoices. The vendor billed the University for late charges on the unpaid balance. The University paid late charges that resulted from the disputed telephone calls. The students were able to charge calls by circumventing the controls of the University's phone system.

A system of effective internal controls includes and good business practices require that the University promptly pay in full for charges incurred for which vendors can reasonably expect the University is responsible. However, effective policies and procedures prevent unauthorized telephone calls being made from University phones.

We recommend that policies and procedures be established to prohibit and prevent students from making unauthorized charges to University accounts. Regarding unauthorized telephone charges, we recommend the University direct its service provider to install equipment on telephones for student use or to which they have uncontrolled access which prevents access to services for which there are charges above those for basic service (e.g., outgoing long-distance calls). In addition, the University should establish procedures for reviewing vendor bills for unauthorized charges, identifying the responsible employee or student, and collecting reimbursement in a timely manner.

Expenditure Cutoff

For two of the 60 fiscal year 2001 disbursement vouchers reviewed, \$1,928 of the invoices were for expenditures incurred in fiscal year 2000. They were not paid in the proper

fiscal year because departments failed to timely submit receiving reports (in the form of acknowledgement copies of the purchase orders) or the departments did not submit purchase requisitions for those procurements not requiring purchase orders. Such documentation gives accounts payable the authority to make payments.

In our fiscal year-end expenditures cutoff test, we reviewed 18 disbursement vouchers to determine if the costs were charged to the proper fiscal year and paid for from the appropriate fiscal year's funding. Two vouchers totaling \$439,669 were not paid in the proper fiscal year because the University received the invoices after the closing of its fiscal year 2001 accounting records and because it did not have any 2001 funds available for payment of the charges. The \$439,669 was paid in fiscal year 2002.

The University is in violation of Provisos 72.2. of the South Carolina Appropriations Acts for the fiscal years 2000–2002; each states, in part, the following: “It is the intent of the General Assembly to appropriate all State funds and to authorize and/or appropriate the use of all Federal and other funds for the operations of State agencies and institutions for the current fiscal year.”

We recommend that the University develop and implement written procedures to ensure that purchase requisitions, receiving reports, and all other applicable voucher documentation are properly and timely submitted to accounts payable, and that invoices are timely processed for payment. Accounts payable fiscal year-end cutoff procedures should include contacting vendors to obtain invoices for all goods and services received but not yet billed through fiscal year-end. We also recommend that the University practice good budgeting techniques, such as encumbering funds as soon as an obligation is incurred, in order to set aside funding to liquidate the obligation when payment is due and to properly use current year funds for current year expenditures.

PERSONNEL AND PAYROLL PROCESSING PROCEDURES

Final Pay

During our test of 25 payroll transactions for employees who terminated employment with the University, we determined that four employees were overpaid a total of \$4,583 because, prior to termination they were allowed to use more leave than they had and were in the process of repaying the leave when they terminated employment and the University did not reduce their final pay by the amount owed. The University has been unable to collect reimbursements from the former employees for those overpayments. Consequently, those employees received unearned compensation. [In our last two audits of the University's statements, we reported findings for overpayments to employees terminating employment.]

The University violated the following State law and regulations. Section 8-11-30 of the State Code of Laws which states, "... It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees..."

We recommend that the University's personnel department implement procedures to ensure the University adheres to and enforces all applicable State laws, rules, and regulations regarding earned leave and compensation. Those procedures should include properly computing final pay through the effective date of termination and then promptly removing the employee from the active payroll. Should an overpayment occur, Personnel should immediately act to recover payments made in error with appropriate follow-up until the full amount is collected. We also recommend the University improve its internal controls to ensure the employing department obtains a resignation letter from the employee that accurately states

the effective date of termination of employment; has the employee timely complete forms for annual and sick leave taken, especially during the employee's final payroll period; and promptly forwards the resignation and leave taken documentation to the personnel department for processing and accurate payment of final work hours and the balance of earned but unused annual leave.

Termination Dates

As described in the preceding finding "Final Pay", we detected four errors in the 25 employees' final checks. Of those four, three involved errors in notification or processing of effective dates of employment termination. For one of the three, the date in her resignation letter differed from the actual date of termination. Two of the employees who failed to give notice of their resignations left work one day and didn't return. Personnel did not remove them from the University's payroll as of the last day each was in employment status. Consequently, they were overpaid. The employing departments did not timely and correctly process documentation of leave taken by employees in their final payroll periods and failed to timely notify Personnel of the employees' termination dates. [Both the fiscal year 1999 and fiscal year 2000 Auditor's Comments described overpayments resulting from failure to accurately document and timely process employment termination transactions.]

The University's *Personnel Policies and Procedures Manual*, Employee Relations, Section VII, Subject I – Progressive Discipline Guidelines states that "employees who fail to report to work and (do) not notify their supervisor for three workdays or more would be considered voluntarily resigned ..." This voluntary resignation would be made effective as of when they departed from work prior to their unexplained absence. Also, Section 8-11-30 of the State Code of Laws prohibits receipt by a State employee or payment by a State agency of

any salary not due. Furthermore, *State Human Resources Regulations* (State Personnel Regulations) Section 19-719.02 provides, "An employee may resign orally or in writing ... (the agency's) oral acceptance of a resignation should be generally confirmed in writing." An effective system of internal controls includes independent checks on the proper performance of job duties (e.g., comparing information used in payroll computations to the source records).

We recommend the University implement procedures to ensure it adheres to State law and regulations and to its own personnel policies and procedures regarding processing resignations and final pay. Management should remind departments that procedures require written notice of resignation by the employee or by the department's confirmation be forwarded immediately when received to Personnel. Employing departments should also be informed that, should the actual termination date differ from the earlier notice or should a de facto resignation occur, the department immediately notify Personnel of the change. We also recommend the University design and implement procedures for an independent review (by someone other than the payroll preparer) of final pay computations for hours worked in the final payroll period and for the balance of unused annual leave paid, both to the applicable personnel documentation of the effective termination date and the annual leave balance at termination (net of all leave taken while in employment status). In addition, we recommend that Personnel correct the employees' personnel files to reflect the proper termination dates.

Employee Performance Evaluations

We selected 60 payroll transactions for detail testing which included reviewing the documentation in the employees' personnel and payroll files for certain information and for support of fiscal year 2001 transactions. Of the sixty, 22 were for permanent, non-faculty employees who are required, in accordance with State Personnel Regulations, to have annual

job performance evaluations. The personnel files of 16 of the 22 did not have evidence that the most recent annual evaluations were completed. It appears unlikely that supervisors performed these evaluations and merely failed to document them. When asked why evaluations weren't performed, Personnel explained that supervisors generally fail to perform current annual evaluations due to oversight or neglect of their responsibilities. Without routine feedback (the minimum being an annual evaluation), an employee has difficulty measuring his current performance of ongoing duties. Also, without this evidence, the University may be unable to justify raises, disciplinary actions, and other actions. [Similar findings were reported in the prior year.]

State Human Resources Regulations (State Personnel Regulations) Section 19-715.01 C. requires each agency to “develop an Employee Performance Management System (EPMS) that supports continuous communication between supervisors and employees and provides a sound process for the evaluation of the performance and productivity of its employees.” Paragraph D of Regulation 19-715.01 exempts certain specified employees and other persons holding faculty appointments from these Regulations. South Carolina State University’s Employee Performance Management System Directive #103-96 requires that the job performance of each permanent employee must be evaluated once annually.

We recommend that the personnel department remind all supervisory employees throughout the University of the State’s and the University’s requirements for annual performance evaluations. Furthermore, we recommend Personnel develop procedures to monitor the timely performance and completion of written evaluations forms for all employees for whom they are required and receipt in Personnel of all applicable documentation. Personnel should develop procedures to follow up and obtain evaluations not completed and

submitted in a timely manner. Also Personnel should review the planning stage EPMS forms for all supervisory employees to ensure they include duties for timely preparation and submission of written evaluations so each supervisor's performance is rated on that.

Personnel Forms (I-9)

The personnel files of four of the 60 employees in our detail payroll test did not contain properly completed, signed, and certified Employment Eligibility Verification (I-9) forms (i.e., three forms were not complete and one file did not contain an I-9 form). [Similar findings were reported in the prior year.] The continued existence of such errors and omissions indicate Personnel has not reviewed all employee files for completeness to ensure that for each employee category they contain the minimum documentation required by State Personnel Regulation 19-720.02 for employee records; required of all employers by the State and federal governments; and required in its fiduciary capacity with employees. Nor has Personnel reviewed employee files to determine that forms therein are complete including signatures and certifications as appropriate for specific forms. The personnel department's procedures for processing a newly hired employee do not include an independent review of that employee's personnel file for the presence of all required forms and other documentation and for the completeness and accuracy of each form.

Hiring and employment controls are weakened when personnel files don't contain proper and adequate documentation for each employee which includes the I-9 information regarding employee identification and employment eligibility. An effective system of internal controls over compliance as well as federal law require employers to maintain I-9 forms for all employees.

We recommend Personnel implement procedures to ensure proper and adequate documentation is prepared, obtained, and retained for each employee. To facilitate a review of files for current employees and to complete files for new employees, it should consider designing and implementing the use of checklists which show the minimum contents of each employee's personnel file. Because of the deficiencies on I-9 forms, these reviews should also include determining the completeness of information on those forms. For each exception detected, Personnel should have the employee complete a new I-9 form and should itself review current evidence of identity and employment eligibility. In addition, we recommend that Personnel establish an independent review of the completeness of the files of each new employee at the time of initial processing and undertake a cyclical review for completeness of personnel files of all current employees.

Payroll at June 30

The payroll for the period ended June 30, 2001, was recorded as a fiscal year (FY) 2001 cash outlay even though the funds were not disbursed until July 14, 2001, in FY 2002. The University recorded a reduction to cash of approximately \$165,000, that had not taken place yet. As a result, before we detected these recording errors, the University's liabilities and cash balances at year-end 2001 were understated. (Adjusting entries have been made for financial statement purposes to set up the accrued payroll liabilities and to increase cash.) Generally accepted accounting principles (GAAP) require that transactions be recorded in the proper accounting period and proper accounts.

We recommend the University analyze its records and transactions to identify the kinds of adjusting and accrual entries that should be made at each month-end and at fiscal year-end. The University should assign responsibility for making routine accrual and adjusting entries to knowledgeable and responsible employees. We also recommend the University assign

responsibility to a knowledgeable supervisor for an independent review for accuracy and completeness. Such a review should be performed at each month-end including fiscal year-end.

FEE WAIVERS

We tested the fee waivers the University issued during fiscal year 2001 to determine if it properly valued and recorded those transactions and if it complied with Proviso 72.20 of the 2000-2001 Appropriations Act which states, "Senior colleges, universities and technical colleges may offer educational fee waivers to no more than two percent of the undergraduate student body." The University greatly exceeded the legal limitation on the allowed number by awarding waivers to approximately nine percent of the undergraduate student body. The University neither monitored the number of fee waivers issued in FY 2001 nor reviewed the computations of all waivers for accurate and consistent valuation. In addition, the method of calculating waivers was not clearly documented and the computation methodology was not consistently followed.

We recommend that the University adopt an appropriate methodology for computing the value of educational fee waivers, consistently use that method, and consistently document its calculations. Furthermore, it should implement procedures to monitor the number of waivers awarded and to document compliance with the limit. Computations of the waiver amounts should be independently reviewed for accuracy and compliance with the limit before they are recorded.

LOAN FUNDS

Loan Management System (LMS) Loan Balances

Certain student loan programs provide for cancellation of all or a portion of the loan balance if the borrower teaches under certain conditions for a specified period. Prorated portions of the loan balances for graduates who have partially fulfilled their teaching obligations have not been cancelled in the University's Loan Management System (LMS) for African American Teacher (AAT) and Education Improvement Act (EIA) loans because the LMS currently does not allow partial cancellations to be recorded. Such a loan can only be cancelled in LMS after the borrower has completely fulfilled his/her debt obligation. [We reported a similar deficiency in the prior year.] For the first time in FY 2001, the University made a year-end adjusting entry to its Financial Reporting System (FRS) to reflect a value for cumulative partial loan cancellations. Because the outstanding loan balances in LMS haven't been adjusted, the LMS subsidiary balances don't support the loan balances in the FRS general ledger and reported in the financial statements.

An effective system of internal controls provides for the accurate reporting of balances in both the management and financial systems and requires routine reconciliations of balances in subsidiary ledgers to the control accounts in the general ledger, in this case the LMS and FRS. We recommend that the University modify its LMS so entries can be processed for prorata loan balance cancellations of AAT and EIA loans related to completion of a portion of the borrower's teaching obligation. Also, procedures should be implemented for periodic reconciliations of the loan balances in both systems.

Balance Write-Off

Old and immaterial student loan balances considered uncollectible still are not written off in both the LMS and the FRS although, effective in FY 2001, the University changed its policy and authorized its collections staff to use the current U.S. Department of Education write-off parameter of \$25 for federal student loan programs (e.g., Perkins loans) for all loans deemed uncollectible. [We reported a similar deficiency in the prior year.] Entries for the automatic write-offs of loan balances under \$25 have not been made in LMS because the process is time-consuming and the University doesn't have adequate staffing to assign to this task. At fiscal year-end 2001, the University made an adjusting entry in its FRS to write off all individual loan balances less than the \$25 estimated uncollectible value. As a result, the total student loan balance in the FRS is considered accurate. However, the LMS loan balances differ from those in the FRS.

GAAP require assets including all receivables to be reported at net realizable value. In addition, an effective accounting system ensures that general ledger balances are supported by the subsidiary ledger detail.

We recommend the University implement procedures to periodically (at fiscal year-end, at a minimum) review its loan portfolios to identify those loan balances in all of its loan programs meeting the University's criteria for "uncollectible" [i.e., write off old and immaterial (under \$25) student loan balances]. Once identified, the related balances should be written off in both the LMS and the FRS. We also recommend that the University use the option of assigning the written-off Perkins loan accounts to the U.S. Department of Education for collection by completing Form 553 – Perkins Loan Assignment Form.

BOND RESOLUTION REQUIREMENT

The bond resolution for the Student and Faculty Housing Revenue (SFHR) bonds requires that housing net revenues be at least 120 percent of the annual bond principal and interest payments. The bond resolution defines net revenues as total revenues less expenditures. To meet this requirement for fiscal year 2001, the University's net housing revenues would have to have been at least \$545,433. However, fiscal year 2001 net revenues for housing were only \$186,626, resulting in a \$358,807 shortfall from the requirement. (Similar comments were presented in the Auditor's Comments section of the State Auditor's Report on the audit of the University's financial statements for the two prior fiscal years.)

We recommend that the University's process for setting campus housing rates factor in the minimum amount required by the bond resolution for debt service for the applicable year, a realistic estimate of the number of units to be rented, and a reasonable estimate of operating costs. Also, the University should implement procedures to closely monitor housing occupancy and net revenues on an ongoing basis. As soon as it appears that housing net revenues for a semester will fall short of one half of the current annual debt service payments, the University should take immediate action to increase housing rates for the next semester to cover the projected shortfall.

AUXILIARY ENTERPRISES

Two of the activities the University classifies as auxiliary enterprises (i.e., bookstore and dining services) were not self-supporting in fiscal year 2001. [In the Auditor's Comments for both fiscal years 2000 and 1999, we reported that the dining services and housing operations were not self-supporting.]

Paragraph 6.22 of the *Audits of Colleges and Universities Industry Audit Guide* (Audit Guide) states, “An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities.” Furthermore, Proviso 72.18 of Part IB of the 2001 Appropriations Act states that fees applicable to student housing, dining halls, student health services, parking facilities, laundries, and all other personal subsistence expenses shall be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services over their useful lives.

We recommend that the University review its current practices for setting rates for each of its auxiliary enterprises to ensure they include recovery of all capital asset costs, allocated direct and indirect expenses, and debt service expenditures in addition to direct operating costs and make changes as appropriate. Rates should be set using the most current cost and occupancy information. In addition, we recommend the University implement procedures for the ongoing monitoring of revenues and expenditures for each auxiliary to provide information for management to curtail expenditures immediately and to increase user fees at the first opportunity.

BUDGET MANAGEMENT

From the University-prepared Schedule of Accrued Accounts Payable at June 30, 2001, we selected 25 items to test whether they were properly valued and reported as liabilities at year-end and whether they were paid from the proper fiscal year’s funds. We found each was properly classified as a liability but all were paid from funds for the next year. We then determined that the University used fiscal year 2002 funds to pay for all of the 2001

expenditures on the list, a total of \$1,229,622 from all fund sources. The University had to use monies for the subsequent fiscal year because it had no more fiscal year 2001 funds available to pay all outstanding liabilities for fiscal year 2001 expenses per University personnel. Proviso 72.3 of Part IB of the 2001 Appropriations Act requires that funds legally budgeted for 2001 be used for the ordinary operating expenses of State agencies and institutions in that fiscal year. Also, sound business practices and an effective internal control system include the use of budgeting and cash management techniques to ensure that an appropriate funding source is identified when expenditures are incurred and that funds are set aside to liquidate the related liability when it comes due.

We recommend the University implement procedures to strengthen its controls which ensure expenditures are not incurred until adequate funding therefor has been identified; encumbrances are recorded when the commitment is made; and funding is available to timely pay the obligation.

CASH BALANCES BY FUND

Several of the University's bank accounts (including the operating and payroll accounts) contain cash for multiple funds. The institution does not maintain records of cash balances by individual fund. We were unable to reconcile the individual fund cash balances for each bank account as recorded in the general ledger to the bank statement amount for the applicable account. However, total cash on deposit in all banks as shown in the accounting records as of June 30, 2001, reconciles to total cash on the bank statements. The University moves cash among the various bank accounts without making corresponding entries to cash in its accounting records.

Fund accounting is the method by which resources for various purposes are classified for accounting and reporting purposes in accordance with specified activities or objectives. Generally accepted accounting principles (GAAP) for governmental entities provide that governmental accounting systems be organized and operated on a fund basis, each with a self-balancing set of accounts recording cash and other resources, related liabilities, residual balances, and changes therein. GAAP for governmental colleges and universities, as set forth in the Audit Guide, require that cash be reported on a fund group/subgroup basis. The University's failure to maintain accurate cash balances by individual fund is not in conformity with GAAP. Maintaining accounting records for individual cash accounts by individual fund and routinely reconciling those balances to the bank balances should facilitate the preparation of financial statements and the reporting of fund detail.

We recommend the University change its accounting to require bank account cash balances be recorded by individual fund. Concurrently with that change, the school should implement procedures to prepare, on a monthly basis, reconciliations of its bank account cash balances on a fund basis as recorded in the general ledger and in total by bank account. We also recommend the University make appropriate adjustments in its accounting records to accurately reflect movements of cash among bank accounts.

CAPITAL PROJECTS

Journal Entries

The general ledger balances for individual capital project funds at fiscal year-end 2001 differ from the balances we computed by adding the FY 2000 adjusted balances reported in the prior year's audited financial statements and the current year additions. The general ledger totals for buildings were \$995,228 less than the computed totals and for construction in

progress were \$1,343,543 more than the computed totals. [The 2001 financial statements reported the properly adjusted balances.] Those differences occurred because the University had not posted prior year audit adjustments to the general ledger by fiscal year-end June 30, 2001.

An effective internal accounting control system includes procedures to ensure that all accounting entries including audit adjustments are posted to the financial records so the records and financial statements prepared therefrom are complete and accurate.

We recommend the University's Finance Office implement procedures to ensure all adjustments reflected in the audited financial statements are adequately documented and properly and timely posted as journal entries in the University's accounting records.

SPIRS Report

In our review of the University's capital projects records for fiscal year 2001, we noted the following 33 instances in which the general ledger balance differed from that in four categories on the State Permanent Improvements Reporting System (SPIRS) report. The estimated total cost of each of the 33 projects exceeded the minimum amount to qualify for reporting and other SPIRS procedures.

1. Seven projects (with total expenditures of \$646,968) were on the general ledger, but not on the SPIRS report.
2. Net expenditures totaling (\$738,486) in the accounting records for 10 projects differed from the related amounts on the SPIRS report.
3. Thirteen project balances were zero on the general ledger but on the SPIRS report they showed balances in total of \$14,210,684.
4. Three projects with balances (totaling \$67,940) on the SPIRS report were not in the general ledger.

The transmittal letter sent by the State Budget and Control Board's Office of General Services with the annual SPIRS report directed the University to review the SPIRS report for any discrepancies between it and the University's records and notify the Board of any errors on the report or other differences such as new, completed, or inactive projects. The University did not reconcile its general ledger and other records to the SPIRS report. Consequently, no variances or other project information was reported to the Board.

GAAP requires governmental accounting systems to be organized and operated on a fund basis. As that guidance relates to capital assets, a separate fund should be used to account for each capital project. Furthermore, the State requires individual agencies to maintain and report to the responsible central agency financial and project accounting information for individual capital projects meeting the SPIRS criteria. Also, the State requires each agency to review certain agency data maintained at the State level for accuracy and completeness and to reconcile information in its internal systems to that on reports produced by the State's central systems. Differences in the financial and project accounting records at the individual capital project level which are detected in the processes are to be thoroughly investigated and explained and errors are to be promptly corrected in the University's and/or State's records as appropriate. Accurate capital project information at both the University and State levels is necessary for separate State and agency financial reporting, to properly control capital project activities, and to make sound capital asset decisions.

We recommend the University's Facilities Management Office and the University Finance Office periodically (annually, at a minimum) prepare reconciliations of the capital project balances and other information in the University's financial accounting system and its separate project accounting system. Those two offices should work together to reconcile the

SPIRS report to the University's capital projects records. We also recommend the University implement procedures to ensure it makes appropriate adjustments and corrections to the financial and capital projects/SPIRS records of the University and State to ensure that accurate information is provided to State decision-makers by the University and is reported by both the University and State.

Asset Classification

We reviewed certain Hodge Hall Renovation Project (#9560), (A/C# 80667) transactions and identified \$298,298 in purchases from five vendors for furniture, but the University reported only \$6,327 as equipment on its capital projects schedule. In response to our inquiry, University personnel stated the purchases had been paid from construction project funds and, therefore, had been classified as building expenditures, not equipment. As a result, \$291,971 of capital assets was misclassified in the financial records. Corrections have been made to the financial statements.

An effective system of internal accounting controls requires assigning adequately trained personnel who are familiar with the nature of the transactions to code those expenditures. Such a system includes having adequate written guidance regarding expenditure classifications available to employees who assign coding to procurement and expenditure transactions to ensure they are properly classified and to ensure like transactions are consistently classified in the University's accounting records. [In the State's accounting and reporting system (STARS), expenditure object code 0704 is defined as basic equipment, including furniture and other easily moveable items, procured as part of a building permanent improvement project.] In addition, controls should include the review of coding by responsible and knowledgeable supervisors in the voucher preparation, review, and approval processes.

We recommend the University revise its policies to require the use of STARS permanent improvements expenditure codes. In addition, we recommend the University implement procedures to ensure employees responsible for assigning and reviewing expenditure coding for capital assets are adequately trained regarding expenditure classifications and those responsible for maintaining and using capital projects information are knowledgeable about expenditure coding. Also, as discussed in the preceding comment, classification differences identified in the reconciliation processes should be resolved and error corrections made in the financial and capital projects records and in SPIRS, as appropriate. Also, we recommend the University's Finance Office coordinate with the Facilities Management Office to ensure capital projects information is reconciled and to ensure all capital project expenditures are properly classified in the University's accounting and capital projects systems and on SPIRS reports.

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