LANDER UNIVERSITY

GREENWOOD, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2000

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State of South Carolina

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INDEPENDENT AUDITOR'S REPORT

October 6, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the accompanying basic financial statements of Lander University as of June 30, 2000, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of 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 Lander University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
October 6, 2000

These financial statements exclude the related entities described in Note 20 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 20, effective July 1, 1999, the University implemented the National Association of College and Business Officers (NACUBO) Advisory Report 99-1, *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts,* NACUBO Advisory Report 99-2, *Accounting and Reporting for Auxiliary, Auxiliary-Other, and Other Self-supporting Activities,* NACUBO Advisory Report 99-3, *Accounting and Reporting Information Technology (IT) Expenses by Higher Education,* NACUBO Advisory Report 99-5, *Accounting and Reporting for Student Clubs and Groups,* NACUBO Advisory Report 99-6, *Reporting Safety and Security Expenses by Higher Education,* NACUBO Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software,* and the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising.*

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

EXHIBIT A

LANDER UNIVERSITY
Balance Sheet
June 30, 2000

ASSETS

CURRENT FUNDS	
Unrestricted:	
Cash and Cash Equivalents (Note 16)	$2,162,928
State Appropriations Receivable (Note 2)	15,605
Accounts Receivable, Net (Note 14)	103,761
Interest Receivable	889
Inventories, Net (Note 12)	139,529
Prepaid Items	110,780
Due from Other Funds: (Note 13)	
Restricted Current Funds	28,590
Retirement of Indebtedness Plant Funds	24,246
Unexpended Plant Funds	38,782
Total Unrestricted	2,625,110
Restricted:	
Grants and Contracts Receivable	25,439
Due from Related Parties (Note 17)	88,261
Total Restricted	113,700
Total Current Funds	$2,738,810
LOAN FUNDS	
Cash and Cash Equivalents (Note 16)	$ 124,793
Student Loans Receivable, Net (Note 14)	1,221,755
Interest Receivable	1,542
Due from Unrestricted Current Funds (Note 13)	8,288
Total Loan Funds	$1,356,378

LIABILITIES AND FUND BALANCES

CURRENT FUNDS	
Unrestricted:	
Accounts Payable	$ 209,051
Accrued Payroll and Related Liabilities	59,875
Deferred Revenues	310,323
Student Deposits	167,285
Accrued Compensated Absences and Related Liabilities	974,816
Due to Other Funds (Note 13):	
Loan Funds	8,288
Agency Funds	25,629
Fund Balance, Net	869,843
Total Unrestricted	2,625,110
Restricted:	
Accrued Payroll and Related Liabilities	3,178
Due to Unrestricted Current Funds (Note 13)	28,590
Fund Balances:	
Grants and Contracts	81,932
Total Restricted	113,700
Total Current Funds	$2,738,810
LOAN FUNDS	
Fund Balances:	
U.S. Government Grants Refundable	$1,356,378
Total Loan Funds	$1,356,378

LANDER UNIVERSITY
Balance Sheet
June 30, 2000

ASSETS		LIABILITIES AND FUND BALANCES	
PLANT FUNDS		**PLANT FUNDS**	
Unexpended:		Unexpended:	
Cash and Cash Equivalents (Note 16)	$ 816,847	Due To Unrestricted Current Funds (Note 13)	$ 38,782
Accounts Receivable	463	Fund Balances:	
		Unrestricted, Designated	633,982
Capital Improvement Bond Proceeds		Restricted	962,904
Receivable (Note 3)	812,904		
Interest Receivable	5,454		
Total Unexpended	1,635,668	**Total Unexpended**	1,635,668
Retirement of Indebtedness:		Retirement of Indebtedness:	
Cash and Cash Equivalents (Note 16)	626,145	Accrued Interest Payable	87,776
Interest Receivable	41,481	Due to Unrestricted Current Fund (Note 13)	24,246
		Fund Balances:	
		Restricted	555,604
Total Retirement of Indebtedness	667,626	**Total Retirement of Indebtedness**	667,626
Investment in Plant:		Investment in Plant:	
Land and Land Improvements	2,535,821		
Leasehold Improvements (Note 6)	50,408	Notes Payable (Note 5)	2,631,842
Buildings	51,231,180	Bonds Payable (Note 4)	385,000
Equipment	2,182,525	Installment Note Payable (Note 7)	288,295
Equipment Under Installment Note (Note 7)	543,127	Net Investment in Plant	56,646,398
Library Collection	3,397,873		
Computer Software	13,251		
Less: Accumulated Amortization	(2,650)		
Total Investment in Plant	59,951,535	**Total Investment in Plant**	59,951,535
Total Plant Funds	$62,254,829	**Total Plant Funds**	$62,254,829
AGENCY FUNDS		**AGENCY FUNDS**	
Due from Others	$ 13,718	Deposits Held for Others	$ 39,347
Due from Unrestricted Current Funds (Note 13)	25,629		
Total Agency Funds	$ 39,347	**Total Agency Funds**	$ 39,347

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

EXHIBIT B

LANDER UNIVERSITY

Statement of Changes in Fund Balances

For the Year Ended June 30, 2000

	CURRENT FUNDS			PLANT FUNDS			
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS- (MEMORANDUM ONLY)
Revenues and Other Additions:							
Unrestricted Current Fund Revenues	$25,774,004	$ -	$ -	$ -	$ -	$ -	$25,774,004
U.S. Government Advances	-	-	22,958	-	-	-	22,958
Federal Grants and Contracts-Restricted	-	1,693,372	-	-	-	-	1,693,372
State Appropriations-Restricted (Note 2)	-	1,236,697	-	-	-	-	1,236,697
State Grants and Contracts-Restricted	-	5,560	-	-	-	-	5,560
Private Gifts - Restricted	-	798,458	-	24,116	-	77,381	899,955
Nongovernmental Grants and Contracts-Restricted	-	72,466	-	-	-	-	72,466
Capital Improvement Bond Proceeds	-	-	-	988,000	-	-	988,000
Interest Income-Restricted	-	-	6,701	20,573	130,017	-	157,291
Reimbursement of Previously Canceled Loans	-	-	50,942	-	-	-	50,942
Interest on Student Loans Receivable	-	-	23,576	-	-	-	23,576
Expended for Plant Facilities (Including $173,163 Charged to Current Funds Expenditures)	-	-	-	-	-	768,204	768,204
Retirement of Indebtedness	-	-	-	-	-	584,553	584,553
Student Fees	-	-	-	46,765	-	-	46,765
Total Revenues and Other Additions	25,774,004	3,806,553	104,177	1,079,454	130,017	1,430,138	32,324,343
Expenditures and Other Deductions:							
Educational and General Expenditures	20,102,793	3,834,925	-	-	-	-	23,937,718
Auxiliary Enterprises Expenditures	4,121,419	7,864	-	-	-	-	4,129,283
Indirect Costs Recovered	-	5,147	-	-	-	-	5,147
Loan Cancellations and Write-Offs	-	-	77,429	-	-	-	77,429
Administrative and Collection Costs	-	-	24,451	-	2,152	-	26,603
Expended for Plant Facilities (Including Noncapitalized Expenditures of $87,699)	-	-	-	682,740	-	-	682,740
Retirement of Indebtedness	-	-	-	-	584,553	-	584,553
Interest and Executory Fees on Indebtedness	-	-	-	-	225,253	-	225,253
Amortization of Computer Software	-	-	-	-	-	2,650	2,650
Disposal of Plant Facilities	-	-	-	-	-	40,411	40,411
Refunded to Grantor	-	-	490	-	-	-	490
Total Expenditures and Other Deductions	24,224,212	3,847,936	102,370	682,740	811,958	43,061	29,712,277

LANDER UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2000

	CURRENT FUNDS			PLANT FUNDS			
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS-(MEMORANDUM ONLY)
Transfers Among Funds - Additions/(Deductions):							
Mandatory:							
Principal and Interest (Notes 4 and 5)	(2,400,583)	-	-	-	2,400,583	-	-
Renewals and Replacements (Notes 5 and 8)	-	-	-	30,000	(30,000)	-	-
Loan Fund Matching Grant	(7,653)	-	7,653	-	-	-	-
Principal and Interest - Equipment	(101,106)	-	-	(344,179)	445,285	-	-
Nonmandatory (Note 8):							
Transfers from Retirement of Indebtedness and Unexpended Plant Funds for Auxiliary Enterprise Operations	2,188,680	-	-	(76,352)	(2,112,328)	-	-
Net Transfers to Unexpended Plant Funds	(147,370)	-	-	147,370	-	-	-
Total Transfers	(468,032)	-	7,653	(243,161)	703,540	-	-
Net Increases (Decreases) for the Year	1,081,760	(41,383)	9,460	153,553	21,599	1,387,077	2,612,066
Fund Balances (Deficit) - Beginning of Year (Note 20)	(211,917)	123,315	1,346,918	1,443,333	534,005	55,259,321	58,494,975
Fund Balances - End of Year	$ 869,843	$ 81,932	$1,356,378	$1,596,886	$ 555,604	$56,646,398	$61,107,041

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

LANDER UNIVERSITY

Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2000

	UNRESTRICTED	RESTRICTED	TOTAL
Revenues:			
Student Tuition and Fees	$ 9,508,301	$ -	$ 9,508,301
State Appropriations (Note 2)	10,849,047	1,225,407	12,074,454
Federal Grants and Contracts	23,747	1,694,896	1,718,643
State Grants and Contracts	-	5,671	5,671
Private Gifts - Restricted	-	797,418	797,418
Nongovernmental Grants and Contracts	-	119,397	119,397
Interest Income	1,840	-	1,840
Sales and Services of Auxiliary Enterprises	4,962,480	-	4,962,480
Miscellaneous Fines and Fees	120,356	-	120,356
Other Sources	308,233	-	308,233
Total Current Revenues	25,774,004	3,842,789	29,616,793
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	9,605,517	325,261	9,930,778
Research	5,338	13,275	18,613
Public Service	15,501	256	15,757
Academic Support	1,528,559	26,177	1,554,736
Student Services	2,625,661	61,102	2,686,763
Institutional Support	2,684,166	9,397	2,693,563
Operation and Maintenance of Plant	2,832,645	2,273	2,834,918
Scholarships and Fellowships	805,406	3,397,184	4,202,590
Total Educational and General Expenditures	20,102,793	3,834,925	23,937,718
Mandatory Transfers for:			
Retirement of Indebtedness	101,106	-	101,106
Loan Fund Matching Grants	7,653	-	7,653
Total Mandatory Transfers	108,759	-	108,759
Total Educational and General	20,211,552	3,834,925	24,046,477
Auxiliary Enterprises:			
Expenditures	4,121,419	7,864	4,129,283
Mandatory Transfers for Principal and Interest	2,400,583	-	2,400,583
Total Auxiliary Enterprises	6,522,002	7,864	6,529,866
Total Expenditures and Mandatory Transfers	26,733,554	3,842,789	30,576,343

EXHIBIT C
(CONTINUED)

LANDER UNIVERSITY

Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2000

	UNRESTRICTED	RESTRICTED	TOTAL
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	2,188,680	-	2,188,680
Nonmandatory Transfers Out	(147,370)	-	(147,370)
Excess (Deficiency) of Restricted Receipts Over Transfers to Revenues	-	(41,383)	(41,383)
Total Other Transfers and Additions/(Deductions)	2,041,310	(41,383)	1,999,927
Net Increase (Decrease) in Fund Balances	$ 1,081,760	$ (41,383)	$ 1,040,377

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

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 2000

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 Lander 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) <u>and</u> (1) it is able to impose its will on that organization <u>or</u> (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 unless the organization holds all 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 (a primary entity).

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 59-101-30 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 is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University. Fifteen of its members are elected by the General Assembly (two from each Congressional district and three from the State at-large) and one member is appointed by the Governor. The Governor or his designee serves on the Board as an ex-officio member.

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

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received and 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.

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 collection resources; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

The University records receipts from operations of auxiliaries in unrestricted current funds as auxiliary enterprises revenue. Mandatory transfers from auxiliary enterprises revenue for debt service on bonds and notes payable are made from unrestricted current funds to the funds of the retirement of indebtedness plant funds subgroup and for repair and replacement reserve funds to unexpended plant funds.

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

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

All 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing and student health services, bookstore, food services, and vending. The portion of the University's unrestricted current funds fund balance related to its auxiliary enterprises was $1,060,551 at June 30, 2000.

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. At this time, the University has no donor-provided resources for loans.

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 to finance the acquisition of long-life assets including student fees specifically assessed for plant expansion and to provide for routine renewal and replacement of existing plant assets; debt related to unexpended resources; and repair and replacement reserve funds. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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

Use of Estimates

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

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored grants, contracts, and loan programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current and loan 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. For fiscal year 2000, the University retained all indirect cost recoveries.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except most 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease or installment purchase contracts, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases and installment agreements is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. 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.

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

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Library books, periodicals, microfilms, and other library collection materials are recorded at cost when purchased or fair market value at the date of donation in the library collection account. Library book deletions are written off at year-end at average cost based on the actual number of volumes deleted. Periodical deletions are written off at year-end based on actual cost.

Effective July 1, 1999, computer software costs to be capitalized 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. See Note 20 for additional information about the accounting change.

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 and computer software with a unit value in excess of $5,000 and a useful life in excess of one year; and all library materials.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)
When plant assets other than library collection materials are sold, retired, or otherwise disposed of, the carrying value at cost or fair market value at date of gift and the unamortized cost of computer software where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest
The University does not capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do not include such interest costs. Omission of capitalized interest is not in conformity with GAAP. However, the University believes asset values are not significantly understated by this omission.

Deferred Revenues
In unrestricted current funds, deferred revenues primarily consist of student tuition and fees and room and board collected in advance for the summer and fall academic terms. If student financial aid collected exceeds tuition and fees, the University will issue student refunds. 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 other 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.

Prepaid Items
Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefitting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of credits on account for returned textbook inventories.

Fund-raising Costs
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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 16.

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 16.

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

Information Technology Costs

Noncapitalized Information Technology (IT) costs are separately budgeted and accounted for in the institutional support functional classification. Certain IT costs (other than personal services and employer contributions) are allocated to the academic support functional classification based on the percentage of users in the area.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

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

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 5H of Part IA of the 1999-2000 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2000:

Original Appropriation	$ 9,169,057
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.10.)	234,138
For Employer Contributions (Proviso 72.22)	35,940
For Health and Dental Insurance - Retirees	9,300
For Employer 401k Deferred Compensation Match (Proviso 72.48.)	10,502
Appropriation Allocations from the State Commission on Higher Education:	
For Higher Education Awareness Program (HEAP)	400
For Instructional Technology Incentive Grant	12,000
From State Higher Education Matching Gift Fund For Academic Endowment Match	102,742
From Supplemental Appropriations of 1999 Surplus State General Fund Revenues (Part IV of the 2000 Appropriation Act) for Academic Initiative	500,000

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

From the Children's Education Endowment Fund For:	
Palmetto Fellows Scholarships	165,151
Need-Based Grants	309,398
For Access and Equity Desegregation Funding (Proviso 5A.6.)	18,306
For Performance Funding (Proviso 5A.19.)	1,183,584
For LIFE Scholarships (1998 Act 418)	647,006
Revised Appropriations - Legal Basis	12,397,524
Accrued Funding for Net Payroll Accrual Adjustments	(311,780)
State Appropriations Revenue - Accrual Basis	12,085,744
Less: Higher Education Grant/Scholarship and Heap Funding Reported in Restricted Current Funds	(1,236,697)
Funding Reported in Unrestricted Current Funds	$ 10,849,047

Certain of the University's payroll expenditures are funded from State General Fund appropriations. The "state appropriations receivable" reported in unrestricted current funds represents monies due from the State General Fund for applicable University personal services and employer contributions expenditures accrued at June 30 but paid in July from fiscal year 2000 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2000 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 subgroup. 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, 2000, follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 2000	Balance Authorized June 30, 2000
111 of 1997	$3,325,000	$2,569,524	$484,105	$271,371
A28 of 1999	988,000	-	446,467	541,533
Total	$4,313,000	$2,569,524	$930,572	$812,904

NOTE 4 - BONDS PAYABLE

Bonds Payable
At June 30, 2000, bonds payable consisted of the following:

	Interest Rates	Maturity Dates	June 30, 2000 Balance	2000 Maturities
Student and Faculty Housing Revenue Bonds Series 1976A	8.0%	July 1, 2002	$385,000	$130,000

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The bonds payable have priority over any other claims to this revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on these bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The bond resolution specifies the University must maintain a $170,000 debt service reserve fund and an amount equal to one half the next principal payment due in a debt service account on deposit with the bond fiscal agent, the trust department of a financial institution. At June 30, 2000, the University had $175,000 on deposit in the debt service reserve fund and $72,500 on deposit in the debt service account.

Beginning July 1, 1985, certain of the bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the trustee. The redemption prices (expressed as a percentage of the principal redeemed) for the bonds are 2.5 percent through January 1, 1997 and 2 percent thereafter.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2000, are as follows:

Year Ending June 30	Principal	Interest	Total
2001	$145,000	$25,000	$170,000
2002	155,000	13,000	168,000
2003	85,000	3,400	88,400
Total Obligations	$385,000	$41,400	$426,400

The University reported interest expenditures of $30,800 related to the bonds for the year ended June 30, 2000.

NOTE 5 - NOTE PAYABLE

At June 30, 2000, the University had a bank note payable outstanding, as follows:

	Interest Rate	Maturity Date	June 30,2000 Balance	2000 Maturities
Student and Faculty Housing 1988 Note	5.5%	July 1, 2022	$2,631,842	$58,159

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing note except that debt service on this note payable to the U.S. Department of Education (DOE) is subordinate to that on the University's student and faculty housing revenue bonds.

Semiannual payments of $102,660 including principal and interest are due on January 1 and July 1 each year.

As required by the note agreement, the University must establish debt service and repair and replacement reserve accounts and deposit $25,665 semiannually into the debt service reserve account until $205,320 has been accumulated. Once the University has met the full debt service reserve requirement, the University must deposit $30,000 annually into a repair and replacement reserve account until $300,000 has been accumulated. The debt service and repair/replacement reserves monies for this note are on deposit in State Treasurer accounts. At June 30, 2000, the University's debt service reserve account was fully funded. In the current year, the University transferred $30,000 into the repair and replacement reserve account. The balance in the repair and replacement reserve account was $150,000 which was restricted for repairs and maintenance of facilities. The debt service reserve account and the repairs and replacement account are accounted for in the retirement of indebtedness and unexpended plant funds subgroups, respectively.

Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2000, are as follows:

Year Ending June 30	Principal	Interest	Total
2001	$ 61,402	$ 143,918	$ 205,320
2002	64,825	140,495	205,320
2003	68,440	136,880	205,320
2004	72,256	133,064	205,320
2005	76,284	129,036	205,320
2006 through 2022	2,288,635	1,304,467	3,593,102
Total Obligations	$2,631,842	$1,987,860	$4,619,702

The University reported interest expenditures of $145,562 related to the note for the year ended June 30, 2000.

NOTE 6 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, dormitories, and office facilities) and equipment.

Future commitments for the operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000, were as follows:

	Operating Leases	
Year Ending June 30	Real Property	Equipment
2001	$250,001	$ 39,615
2002	250,001	38,274
2003	250,001	26,544
2004	1	7,464
2005	1	515
2006 through 2046	41	-
Total Minimum Lease Payments	$750,046	$112,412

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. In the normal course of business, operating leases are generally renewed or replaced by other leases.

The University's noncancelable real property operating leases are payable on an annual basis and its noncancelable equipment operating leases are generally payable on a monthly basis. All of the University's noncancelable equipment operating leases are for copiers and postage meters. Lease payments include maintenance of the copiers and all supplies except paper. Future commitments for noncancelable equipment operating leases do not include tiered overage charges for copiers in excess of the base amount.

During fiscal year 1997, the University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease term is 50 years effective July 1, 1996, at the rental rate of one dollar per year. Greenwood County may continue to use the property 3 months each year, rent free, for its youth baseball program. The University has incurred $50,408 of unexpended plant fund expenditures for the baseball field which is capitalized as leasehold improvements in the investment in plant fund subgroup.

During fiscal year 1993, the University entered into a real property operating lease with Ben Lawrence, through the Office of Property Management in Columbia for Greenwood High Apartments for the housing of University students. The yearly lease rate is $250,000 and has an expiration date of July 31, 2003.

The University also has an operating lease with Williams Scotsman for a mobile office at Greenwood High Apartments. The current lease expires in October, 2000. Lease payments in the 1999-2000 fiscal year were $1,767.

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases (Continued)
Total operating lease expenditures in 2000 were $251,768 for real property and $64,472 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

The University had no operating leases with related parties in the current fiscal year.

NOTE 7 - INSTALLMENT NOTE PAYABLE

In July 1999, the University paid $296,570 to liquidate its remaining obligations on a telephone switching system installment note which had final maturity in April 2003. Of this amount, $285,296 was principal and the remaining $11,274 represented interest and a 2% prepayment penalty.

Also, in fiscal year 2000, the University paid off its remaining obligations on the capital lease for computer equipment which had a final maturity in 2001.

Effective November 4, 1999, the University replaced the capital lease with an installment note for the purchase of new computer equipment and combined this with computer software previously acquired by installment note purchase.

Total payments (including payoff and adjustment due to purchase/prepayment) on the capital lease and installment notes in the current fiscal year were $105,231 which included $26,793 in interest and prepayments. The remaining $78,438 represented principal.

In December 1999, the University began making payments on the new installment note. Payments are made monthly with interest rates of 5.1% and 6.77%. Payments made during the current fiscal year amounted to $43,484 of which $10,824 was interest.

Amounts including interest required to complete payment of obligations as of June 30, 2000, are as follows:

Year Ending June 30	Principal	Interest	Total
2001	$ 58,725	$15,819	$ 74,544
2002	62,369	12,175	74,544
2003	66,243	8,301	74,544
2004	70,363	4,181	74,544
2005	30,595	466	31,061
Total Obligations	$288,295	$40,942	$329,237

The University transfers unrestricted current funds to the retirement of indebtedness funds subgroup to meet the current year debt service requirements and simultaneously record a reduction of the note payable in the investment in plant funds subgroup.

The installment note payable is collateralized by assets with a carrying value of $543,127 ($392,735 for the computer software and $150,392 for the computer equipment.)

NOTE 8 - NONMANDATORY TRANSFERS

Revenues pledged for debt service when collected are recorded as revenue in the unrestricted current funds and immediately transferred to the retirement of indebtedness plant funds subgroup. Once the University has met the full debt service reserve requirements, the DOE note agreement requires the University to fund a repair and replacement reserve which is reported in the unexpended plant funds. After making that mandatory transfer, the balance of pledged revenue collections remain in the debt service accounts of the retirement of indebtedness plant funds until they are transferred by the State Treasurer into an account for housing auxiliary enterprise operations which the University reports in unrestricted current funds. The funds become available for transfer because of the maintenance of minimum balances including reserves and accounts for repair and replacement and for payment of debt service as required by bond indentures and law. A request for the transfer of funds in excess of required minimum balances is made by the University to the State Treasurer. In fiscal year 2000, the University made a nonmandatory transfer of $2,112,328 from the retirement of indebtedness plant funds subgroup and a nonmandatory transfer of $76,352 from the unexpended plant funds subgroup to unrestricted current funds to finance housing auxiliary enterprise operations.

The University made nonmandatory transfers of $147,370 from unrestricted current funds to the unexpended plant funds subgroup for general project funding. The majority of these funds were from maintenance and repair fees ($102,450).

NOTE 9 - PENSION PLAN(S)

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.

NOTE 9 - PENSION PLAN(S) (CONTINUED)

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2000, 1999, and 1998, were $872,026, $840,227, and $827,494, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $17,325 in the current fiscal year at the rate of .15 percent of compensation.

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

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

NOTE 9 - PENSION PLAN(S) (CONTINUED)

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services. The University's actual contributions to the PORS for the years ending June 30, 2000, 1999, and 1998, were $35,007, $34,134, and $37,313, respectively, and equalled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $680 and accidental death insurance contributions of $680 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

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

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

NOTE 9 - PENSION PLAN(S) (CONTINUED)

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions and, effective July 1, 1998, to certain employee's of the State's technical colleges 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 1.95 percent from July 1, 1999 to December 31, 1999 and 2.16 percent from January 1, 2000 to June 30, 2000 from the employer in fiscal year 2000.

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 $130,091 (excluding the surcharge) from University as employer and $103,383 from its employees as plan members. In addition, the University paid $2,585 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

An Act passed in the last General Assembly session which had not been signed by the Governor as of June 30, 2000, will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and make other changes to SCRS.

NOTE 10 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

NOTE 10 - 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 $845,602 for the year ended June 30, 2000. As discussed in Note 10, the University paid $279,889 applicable to the 1.95 percent surcharge for July 1, 1999 to December 31, 1999 and the 2.16 percent surcharge for January 1, 2000 to June 30, 2000 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 11 - DEFERRED COMPENSATION PLANS

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

NOTE 11 - DEFERRED COMPENSATION PLANS (CONTINUED)

The State appropriated funds from unspent Fiscal Year 1998-1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required agencies to match certain 401(k) contributions by employees whose salaries are funded from its other applicable revenue sources. The appropriated 401(k) match was limited to $300. To be eligible an employee must meet the following eligibility requirements:

1. The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999, and employed on the date of distribution, and,

2. The employee established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less than $20,000).

In April 2000 the University made contributions from State appropriations and other applicable funding sources of $118 in total to the 401(k) account of each eligible State employee for a total of $16,756 for all of the University's employees.

NOTE 12 - INVENTORIES

Inventories for internal use are valued at cost. University bookstore inventories for resale are valued at the lower of cost or market using both the weighted average and first-in, first-out method of valuing inventory. The University recorded an obsolescence allowance of $1,410 as of June 30, 2000. The following is a summary by inventory category of cost determination method and value at June 30, 2000:

Category	Method	
Textbooks - New	Weighted Average	$ 27,984
Textbooks - Used	Weighted Average	55,747
Merchandise	First-in, first-out	57,208
		140,939
	Less allowance	(1,410)
	Inventories (Net)	$139,529

NOTE 13 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, the amount due to unrestricted current funds from retirement of indebtedness funds are funds that are not restricted for debt service and available for housing operations. All of the amounts are payable within one year without interest. Individual interfund balances outstanding at June 30, 2000, were as follows:

NOTE 13 - INTERFUND LIABILITIES AND BORROWINGS (CONTINUED)

	Receivable	Payable
Unrestricted Current Funds:		
Restricted Current Funds	$ 28,590	$ -
Loan Funds	-	8,288
Unexpended Plant Funds	38,782	-
Retirement of Indebtedness Plant Funds	24,246	-
Agency Funds	-	25,629
Total Unrestricted Current Funds	91,618	33,917
Restricted Current Funds:		
Unrestricted Current Funds	-	28,590
Loan Funds:		
Unrestricted Current Funds	8,288	-
Unexpended Plant Funds:		
Unrestricted Current Funds	-	38,782
Retirement of Indebtedness Plant Funds:		
Unrestricted Current Funds	-	24,246
Agency Funds:		
Unrestricted Current Funds	25,629	-
Totals	$125,535	$125,535

NOTE 14 - ACCOUNTS RECEIVABLE AND STUDENT LOANS RECEIVABLE

The University has the following student accounts receivable and student loans receivable in its various fund groups and subgroups:

Unrestricted Current Funds:	
Accounts Receivable:	
Student Tuition and Fees	$ 203,839
Rental Income	18,303
Auxiliary Enterprises Fees	495
Other	6,889
	229,526
Less: Allowance for Doubtful Accounts	125,765
Accounts Receivable, Net	$ 103,761
Loan Funds:	
Student Notes Receivable:	
Perkins Loan Program	$1,417,678
Less: Allowance for Doubtful Accounts	195,923
	$1,221,755

With minor exceptions, losses for student loans receivable and student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios.

NOTE 15 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the renovation and equipping of Barrett Hall which was substantionally completed in fiscal year 2000 and capitalized in the applicable plant asset category in the investment in plant funds. The approximate costs of renovations to Barrett Hall were $843,000. Construction in progress currently has a $0 balance.

The University capitalized $129,872 in investment in plant funds for additions to buildings and equipment which it had expended from unexpended plant funds. The University recorded $87,699 in noncapitalized expenditures in unexpended plant funds. At June 30, 2000, the University did not have any on-going capital projects.

NOTE 16 - DEPOSITS

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

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

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$3,730,713	Cash on Hand	$ 5,543
		Deposits Held by State Treasurer	3,470,674
		Other Deposits	254,496
	$3,730,713		$3,730,713

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, 2000, 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.

NOTE 16 - DEPOSITS (CONTINUED)

Deposits Held by State Treasurer (Continued)
As disclosed in Note 5, the University must maintain debt service reserve and repair and replacement reserve accounts for its DOE note payable. At June 30, 2000, the retirement of indebtedness plant funds include $205,320 restricted cash for the debt service reserve and the unexpended plant funds include $150,000 restricted cash for the repair and replacement reserve as required by the note agreement. In addition, the retirement of indebtedness plant funds include $190,560 restricted for July 1, 2000, principal and interest payments. This restricted cash is held by the State Treasurer.

Other Deposits
As disclosed in Note 4, the University must maintain debt service reserve and principal accounts for the bonds payable. At June 30, 2000, the retirement of indebtedness plant funds include $175,000 restricted cash for debt service reserve funds and $72,500 restricted cash for principal payment as required by the bond indentures. The restricted cash is on deposit with financial institutions. The total debt service deposits of $247,500 are uncollateralized but are invested in a pooled fixed income fund which is collateralized by government securities invested in the name of the financial institution.

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 it's 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 but not in the entity's name.)

A summary of June 30, 2000, bank balances by risk category follows:

	Category				
	1	2	3	Bank Balance	Reported Amount
Bank Deposits	$64,849	$ -	$254,492	$319,341	$254,496

NOTE 17 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the Lander Foundation (the Foundation) and the Lander University Alumni Association (the Alumni Association).

The Lander University Foundation is a separately chartered entity organized exclusively to promote the development and welfare of Lander University in its educational purposes. The activities of the Foundation are governed by its Board of Directors. The Foundation's financial statements were audited by independent auditors retained by them.

The Lander University Alumni Association, a small nonprofit organization, was established by alumni to promote academic improvements, to assist in scholarship programs, to further the interests of Lander University, and to promote among its present and former students and friends a good fellowship and loyalty. The Alumni Association's financial statements were internally compiled by the 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 annually reviews its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

Various transactions occur between the University and these related entities. The amounts receivable from the related parties have been separately disclosed in the restricted current funds assets. During the year ended June 30, 2000, the University received approximately $600,000 from the Foundation and $17,000 from the Alumni Association for restricted scholarships. The University also received approximately $182,000 from the Foundation for various approved programs related to academic and administrative areas within the University. These funds are reported as restricted current funds private gifts. The University received approximately $9,000 from the Foundation and $15,000 from the Alumni Association which it recorded as private gifts in the unexpended plant funds subgroup. Funds received from the Foundation were used for general maintenance and renovations and funds received from the Alumni Association were used to help defray the costs of the tennis court renovations.

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

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

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond and note trustee, and investment services from the State Treasurer; 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, grants services, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, insurance coverage, office supplies; printing; and telephone and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2000 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year. As subrecipient, the University received federal grant funds from other State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The University entered into mediation over the completion of its Old Main construction project in 1996. The settlement terms called for the University to pay the retainage of $133,437 after the completion of the remaining HVAC work. In fiscal year 1997, the University paid half of the retainage. In fiscal years 2000, 1999, and 1998, the University incurred expenditures to complete the work because the contractor did not fulfill its agreement. The University offset these expenditures against the balance of the retainage. In fiscal year 2000 the HVAC work was completed and the remaining of the retainage ($27,179) was paid to the HVAC contractor, Atlantic Coast Mechanical.

Also, the University has determined that the science wing of the Old Main building has structural defects in the bricks. It has informed the performance bond company (because the contractor cannot be reached) and contracted for engineering services to determine the extent of the problems and the cost of correcting them. The University cannot estimate the cost of correcting the defects and does not know if the costs will be covered under the performance bond.

NOTE 19 - CONTINGENCIES AND LITIGATION (CONTINUED)

The South Carolina Department of Revenue is a defendant in a class action lawsuit challenging the constitutionality and administration of the State's Debt Setoff Act. An order was issued in February finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtor's income tax refunds. However, an appeal and other proceedings are pending. The University, while not named as a defendant in the lawsuit, collected debts pursuant to the Debt Setoff Act. If the order is upheld, the loss could be $92,382 to the University. In such a case, the University would seek collection from the original debtors.

The various federal programs administered by the University for fiscal year 2000 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 20 - ACCOUNTING CHANGES

In fiscal year 1999 and prior years, management reviewed its relationships with the Lander Foundation and the Lander University Alumni Association and determined that the organizations were nongovernmental not-for-profit organizations and were component units of the University. Each of these entities were considered to be blended component units of the University. The financial activity of the Foundation and Alumni Association were presented in a discrete column on the University's financial statements. The University reevaluated its relationship with the Foundation and the Alumni Association and determined that these entities should be excluded from the reporting entity because it is not financially accountable for them. This change was effective July 1, 1999. Note 18 describes the relationship and the significant transactions between the University and its related parties.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-1 *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts,* which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM).* In previous years Private Gifts, Grants and Contracts were reported together. The two classifications have been separated to provide better disclosure and accountability for resources that are a result of donor activity and resources that are a result of acquiring grants and contracts from nongovernmental entities including individuals. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year.

The following table summarizes the changes as of July 1, 1999.

	As Previously Reported	Restatement Adjustment	As Restated
Restricted Current Funds:			
Private Gifts, Grants and Contracts	$1,129,004	$(1,129,004)	$ -
Private Gifts - Restricted	-	983,704	983,704
Nongovernmental Grants and Contracts - Restricted	-	145,300	145,300

NOTE 21 - ACCOUNTING CHANGES (CONTINUED)

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-2 *Accounting and Reporting for Auxiliary, Auxiliary-Other, and Other Self-supporting Activities,* which modifies the *FARM.* A subcategory titled Auxiliary Enterprise - Other has been created which includes expenditures for auxiliary enterprise activities primarily intended to furnish goods and services that are related to the higher education mission. A subcategory titled Other Self-Supporting Enterprises has been created which includes activities primarily established to provide goods and services to other internal units on a fee for service basis. The University currently has no activities which meet these criteria.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-3 *Accounting and Reporting Information Technology (IT) Expenses by Higher Education,* which modifies the *FARM.* Non-capitalized Information Technology (IT) costs that are separately budgeted are accounted for by functional classification. In prior years, the costs were assigned to Academic Support and Institutional Support. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year. Note 1 describes the University's policy for Information Technology Costs.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-5 *Accounting and Reporting for Student Clubs and Groups* which modifies the *FARM.* Multiple funding of agency activities are accounted for by recording the University's support in the appropriate University accounts and the funds held by the University as custodian or fiscal agent are accounted for in Agency Funds in the past and at June 30, 2000. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-6 *Reporting Safety and Security Expenses by Higher Education* which modifies the *FARM.* Safety and Security expenses are reported in Operation and Maintenance of Plant. In previous years the expenses were reported as institutional support. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year. The University reported safety and security expenditures in operations of maintenance and plant of $255,713 for the year ended June 30, 2000. For the year ended June 30, 1999, safety and security expenditures of $246,827 were reported in institutional support.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-7 *Accounting and Reporting for Capitalization of Software* which modifies the *FARM.* This report adopted AICPA Statement of Position 98-1 *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for public not-for-profit higher education institutions. In previous years computer software costs were reported as Academic Support and Institutional Support in unrestricted current funds. The University incurred no software costs in the prior fiscal year that met its capitalization criteria. This statement does not require restatement of prior period costs. Note 1 describes the University's policy for capitalizing computer software developed or obtained for internal use.

Effective July 1, 1999 the University adopted AICPA Statement of Position 98-2 *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising* which establishes financial accounting standards for accounting for costs of joint activities. Previously the University reported costs of joint activities as expenditures in the institutional support functional category where the joint activities occurred. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year. Note 1 describes the allocation of joint costs for this year.

NOTE 21 - RISK MANAGEMENT

Insurance Coverage
The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all such 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.

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, (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries and employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The ISF's rates are determined actuarially.

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

NOTE 21 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)
The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from dishonest or fraudulent acts, limited to $100,000 for dishonesty, $50,000 for forgery or alteration, and $4,000 from theft, disappearance, and destruction. The University also obtains coverage through a commercial insurer for inland marine insurance for musical instruments loaned out to students and for medical insurance covering student athletes.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted and restricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a State or commercial insurer.

Self-Insurance
The University has elected not to obtain business interruption insurance on its housing operations, an auxiliary enterprise. The University believes the risk of loss is remote and it is more economical to manage such risks internally.

Revenues and expenditures for 2000 related to housing operations were $2,458,880 and $1,783,049, respectively.

The University is unable to estimate lost revenues, the cost of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. However, the University estimates that it would be able to house displaced students in other University-operated housing facilities in the event of a loss.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors.

In management's opinion, claims losses in excess of insurance coverage are unlikely. 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.

AUDITOR'S COMMENTS

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
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THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 6, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the basic financial statements of Lander University as of and for the year ended June 30, 2000, and have issued our report thereon dated October 6, 2000. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Lander University for the year ended June 30, 2000, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
October 6, 2000

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. Our comments classified as reportable conditions are reported in Sections A and B of the Auditor's Comments section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We have classified the comment reported in Section A of the Auditor's Comments section of this report as a material weakness.

These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of the University as of and for the year ended June 30, 2000, and this report does not affect our report on the financial statements dated October 6, 2000.

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 these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

SECTION A - MATERIAL WEAKNESS

CAPITALIZED EQUIPMENT

During fiscal year 1997, the University purchased a general ledger upgrade under an installment purchase agreement. The upgrade was properly capitalized at $392,735 – Note 7 in the investment in plant funds subgroup, object code 1772 (equipment under installment purchase). In fiscal year 2000, the University purchased a new AS400 computer system (equipment) under an installment purchase agreement for $150,392 - Note 7. The University accounts for the general ledger upgrade and the AS400 computer system as one asset valued at $543,127 - Note 7. When the University added the asset to the fixed asset subsidiary ledger, it inadvertently capitalized the assets twice, once in object code 1772 and again in object code 1781 (capitalized equipment). Management indicated that this error was the result of a mistake. As a result, the capitalized equipment and retirement of indebtedness accounts recorded in the investment in plant funds subgroup were overstated by $543,127 at June 30, 2000.

Section 315.1 Capitalization of Fixed Assets of the National Association of College and University Business Officers (NACUBO) Financial and Reporting Manual for Higher Education states, in part, that public colleges and universities capitalize fixed assets in the Investment in Plant subgroup of the plant funds and account object classification codes identify those expenditures which are to be capitalized. Capitalized assets consist of land, improvements to land, buildings, improvements and additions to buildings, equipment, library books, and sometimes construction in progress.

Also, generally accepted accounting principles require that transactions be properly recorded in the accounting records and that all material acquisitions be properly capitalized. Further, a strong internal control system requires that adequate reconciliation and review procedures operate effectively to ensure that material errors are detected during the normal course of business and are subsequently corrected in a timely manner. An adjustment was made to correct the error on the University's financial statements.

We recommend the University develop and implement procedures to ensure that capital assets are properly recorded to ensure that its financial statements are presented fairly. The University should review its reconciliation and review procedures and revise them as necessary to ensure that recorded accounting transactions are valid and accurate.

SECTION B - OTHER REPORTABLE CONDITIONS

AUXILIARY ENTERPRISES

The University operates the following auxiliary enterprises: housing and health services, bookstore, food services, and vending. In fiscal year 2000, the University made the following transfers from auxiliaries to education and general:

Housing and Health Services	$ 57,771
Bookstore	36,634
Food Services	29,453
Total	$123,858

The University used these funds mostly for educational and athletic scholarships.

Part IB, Section 72.13. of the 1999-2000 Appropriation Act addresses revenues collected at the State's universities and states in part,

> ... it is further required that no such fee or income shall be charged in excess of the amount that is necessary to supply the service, or fulfill the purpose for which such fee or income was charged. Notwithstanding other provisions of this act, funds at State Institutions of Higher Learning derived wholly from athletic or other student contests, from the activities of student organizations, and from the operations of canteens and bookstores, ... may be retained at the institution and expended by the respective institutions only in accord with policies established by the institution's Board of Trustees ..."

The University violated this provision of the Act by charging amounts in excess of what is necessary and then transferring the excess funds from food services and housing and health services to fund scholarships.

Generally accepted accounting principles define an auxiliary enterprise as 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.

In response to a similar comment in the Accountant's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999, and dated October 8, 1999, management stated that the scholarships referred to above are no longer awarded but the transfers were made to allow the University to satisfy the original four year commitment made to students. Based on management's response to the prior year finding, fiscal year 2001 should be the last year excess funds in food services and housing and health services are used to fund scholarships.

We, again, recommend the University comply with State law by not charging fees in excess of that necessary to provide the service and by not transferring funds from its food services and housing and health services.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999, and dated October 8, 1999. We determined that the University has taken adequate corrective action on each of the findings except we have repeated part of the finding entitled Auxiliary Enterprises.

MANAGEMENT'S RESPONSE

LANDER
UNIVERSITY
Vice President for Business and Administration

December 11, 2000

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1400 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have received our preliminary draft copy of the audit for Lander University for the fiscal year ended June 30, 2000. We have reviewed the report and authorize the release of the report. We submit the following as Management's Response to be included in the final report.

SECTION A – MATERIAL WEAKNESS

CAPITALIZED EQUIPMENT (Pages 40-41)

Recommendation, Page 41

Management's Response: In the past year the University has made a significant effort to account for Plant Funds in the appropriate manner. Often times accountants leave new areas to be worked through when their auditors are on site. In this instance, the University attempted this accounting procedure and specifically asked the auditors for their review and input. When this error, which amounted to less than 1% of the Net Investment in Plant, was noted, the University immediately corrected it and wrote a procedure to ensure compliance. Recommendation has already been implemented.

Greenwood, South Carolina 29649 (864) 388-8305 Fax (864) 388-8890

Mr. Thomas L. Wagner, Jr., CPA
December 11, 2000
Page 2

SECTION B - OTHER REPORTABLE CONDITIONS

AUXILIARY ENTERPRISES (Pages 42-43)

Recommendation, Page 43

Management's Response: In past years, The University offered full Presidential Scholarships that provided fees, room, and board, and each of these are charged with the appropriate share of the expense. As previously stated, these scholarships are no longer awarded but since the original commitment to the students was for four years, it will take one more year to phase out this program. The University maintains that it is in compliance with State law in both its charge and use of fees in auxiliary enterprises.

The University is grateful to your office for the audit work and suggestions for improvement.

Sincerely,

Mary Jo H. Cook

Mary Jo H. Cook
Vice President for Business
and Administration

MJHC:rk

cc: Dr. Daniel W. Ball
Mrs. Betty F. Barnes
Mr. M. Blair Willingham

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