

WINTHROP UNIVERSITY

Independent Auditors' Report

**Financial Statements and Schedules
For the Year Ended June 30, 2005**

WINTHROP UNIVERSITY

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State of South Carolina



Office of the State Auditor

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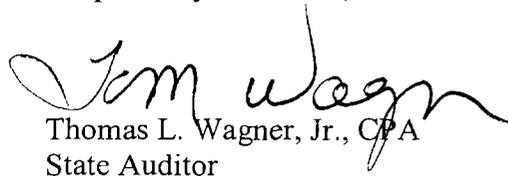
October 10, 2005

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

This report on the audit of the basic financial statements of Winthrop University and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2005, was issued by Cline Brandt Kochenower & Co., P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

FINANCIAL INFORMATION

Independent Auditors' Report

Winthrop University
Rock Hill, South Carolina

We have audited the accompanying basic financial statements of Winthrop University (the University) as of and for the year ended June 30, 2005. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Winthrop University Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Winthrop University Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the revised August, 1994 *State Board Audit Guide*. 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, the financial statements of the University are intended to present the financial position, changes in net assets and cash flows, where applicable, of only that part of the business type activities that are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winthrop University, as of June 30, 2005, and the results of its operations and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Winthrop University. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2005 on our consideration of Winthrop University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in blue ink that reads "Clin Brantley & Co. PA". The signature is written in a cursive, flowing style.

September 1, 2005



**WINTHROP UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The following discussion and analysis has been prepared by management to provide an overview of the financial position and activities of Winthrop University for the year ended June 30, 2005. This discussion should be read in conjunction with the financial statements and accompanying notes to the financial statements. The financial statement presentation for the University has been prepared to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The University also complies with the requirements of GASB Statements 36, 37, and 38 that were issued to amend Statements 34 and 35.

Introduction

Winthrop University provides personalized and challenging undergraduate, graduate, and continuing professional education programs of national caliber within a context dedicated to public service to the State of South Carolina. All eligible bachelor, master and specialist degrees in the liberal arts and sciences, education, business and the visual and performing arts are nationally accredited – part of the University's commitment to be among the very best institutions of its kind in the nation.

Winthrop University of the 21st century is achieving national recognition as a competitive and distinctive, co-educational, public, residential comprehensive teaching institution.

Winthrop enrolls an achievement-oriented, culturally diverse and socially responsible student body of 6,500 students and will remain a medium-sized comprehensive teaching university for the foreseeable future. The University recruits South Carolina's best students as well as highly qualified students from beyond the state whose presence adds diversity and enrichment to the campus and state. Winthrop prides itself on being an institution of choice for groups traditionally under-represented on the college campus.

Winthrop's historic campus, located in Rock Hill, South Carolina, provides a contemporary and supportive environment that promotes student learning and development. Winthrop has a diverse and able faculty and professional staff of national caliber and supports their work as effective teachers, scholars, researchers, practitioners, and creative artists. Ongoing assessment of programs and services ensures both that all academic programs challenge students at their highest level of ability and that the library, instructional technology and other academic service areas support courses of study that are consonant with current methods and knowledge. As a result, Winthrop graduates are eminently well prepared to assume successful careers in business, industry, government, education, the arts, and human services, as well as to enter the most competitive graduate or professional schools.

Winthrop has obtained 100 percent national accreditation in all academic areas for which such accreditation is available. Winthrop University was named to *U.S. News & World Report's* Top Ten Regional Public Universities in the magazine's "America's Best Colleges" 2005 edition. It is the 13th time this publication has chosen Winthrop for inclusion in its listings.

Consumers Digest rated Winthrop University among the nation's top 50 "Best Value" public universities for 2004. The college guidebook, **Barron's Best Buys** (seventh edition), includes Winthrop in its compilation. The guide looks beyond the nation's best-known and most expensive four-year colleges to discover schools where the education dollar goes further. The Princeton Review rated Winthrop among its "Best Southeastern Colleges" based on academic excellence and what students report about their college experiences. Winthrop is one of 100 schools profiled in the first edition of the regional guide.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Winthrop University. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets assets (assets minus liabilities). Current assets are those that are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is not available for expenditure. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of the University's unrestricted net assets have been designated for various academic initiatives or future capital commitments.

CONDENSED STATEMENT OF NET ASSETS

| | <u>2005</u> | <u>2004</u> | <u>Increase/ (Decrease)</u> |
|---|----------------------|----------------------|---------------------------------|
| ASSETS | | | |
| Current Assets | \$ 25,102,045 | \$ 19,748,794 | \$ 5,353,251 |
| Capital Assets, Net of Accumulated Depreciation | 73,968,376 | 63,912,325 | 10,056,051 |
| Other Noncurrent Assets | <u>5,511,863</u> | <u>13,239,047</u> | <u>(7,727,184)</u> |
| Total Assets | <u>104,582,284</u> | <u>96,900,166</u> | <u>7,682,118</u> |
| LIABILITIES | | | |
| Current Liabilities | 10,893,385 | 11,249,465 | (356,080) |
| Noncurrent Liabilities | <u>29,888,488</u> | <u>27,774,792</u> | <u>2,113,696</u> |
| Total Liabilities | <u>40,781,873</u> | <u>39,024,257</u> | <u>1,757,616</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 46,300,072 | 44,480,110 | 1,819,962 |
| Restricted for Nonexpendable | 485,729 | 484,930 | 799 |
| Restricted for Expendable | 1,686,546 | 2,483,853 | (797,307) |
| Unrestricted | <u>15,328,064</u> | <u>10,427,016</u> | <u>4,901,048</u> |
| Total Net Assets | <u>\$ 63,800,411</u> | <u>\$ 57,875,909</u> | <u>\$ 5,924,502</u> |

- Current Assets increased by \$5,353,251 in 2005. This increase was primarily a result of an increase in student fees reserved for future institutional and housing capital projects and debt service.
- Capital Assets increased by \$10,056,051 in 2005. The increase was a result of construction beginning on the new Lois Rhome West Health, Physical Education and Wellness Center and the completion of the campus energy and the track and field complex projects.
- Other Noncurrent Assets decreased by \$7,727,184 in 2005. This decrease was a result of Institutional Bond and Master Lease proceeds on hand at FY2004 year end that were disbursed in FY2005 for capital project additions and renovations.
- Long term liabilities increased by just over \$2 million. This increase is a result of the issuance of \$3 million in Higher Education Revenue bonds and \$970,162 borrowed from the State Energy Office offset by current year bond payments of \$1.99 million.
- Total net assets increased by \$5,924,502, which was largely attributable to the increase in capital asset additions, as well as student fees reserved for future capital projects and debt service.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Accrual accounting records the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

| | 2005 | 2004 | Increase/ Decrease |
|--|----------------------|----------------------|-----------------------|
| Operating Revenue | \$ 60,932,519 | \$ 55,403,604 | \$ 5,528,915 |
| Operating Expenses | <u>82,564,525</u> | <u>77,239,095</u> | <u>5,325,430</u> |
| Operating Loss | (21,632,006) | (21,835,491) | 203,485 |
| Nonoperating Revenues and Expenses | <u>22,656,660</u> | <u>22,038,650</u> | <u>618,010</u> |
| Gain before Other Revenues, Expenses, Gains, or Losses | 1,024,654 | 203,159 | 821,495 |
| Other Revenues, Expenses, Gains, or Losses | <u>4,899,848</u> | <u>1,991,196</u> | <u>2,908,652</u> |
| Increase in Net Assets | <u>\$ 5,924,502</u> | <u>\$ 2,194,355</u> | <u>\$ 3,730,147</u> |
| Net Assets – Beginning of Year | \$ 57,875,909 | \$ 55,681,554 | \$ 2,194,355 |
| Increase in Net Assets | <u>5,924,502</u> | <u>2,194,355</u> | <u>3,730,147</u> |
| Net Assets at End of Year | <u>\$ 63,800,411</u> | <u>\$ 57,875,909</u> | <u>\$ 5,924,502</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in the net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating Revenues increased in excess of \$5.5 million. This increase is primarily attributable to an increase of \$4.95 million in tuition and fee revenue resulting from the tuition and fee increase approved by the University's Board of Trustees in June 2004. This tuition and fee increase was approved to help offset continued reductions in state funding and to support the Quality Initiative Plan passed by the Board of Trustees in February 2002. This plan required that dedicated revenue streams be identified for the enhancement of faculty salaries, facilities and technology.
- Operating Expenses increased by \$5.3 million. Of this amount, faculty and staff salary and benefit expenses increased by \$2.6 million resulting from the 2004 Salary Enhancement Plan. Expenditures for services and supplies increased by nearly \$2 million in 2004-05 as compared to the previous year primarily because of the renovation expenditures that occurred in 2005 for campus window replacements, upgrades to the Winthrop Coliseum, Phelps, and Lee Wicker as well as the razing of Breazeale Hall.
- Nonoperating Revenues increased by \$618,010. This increase was primarily from an increase in State appropriation revenue for a portion of the state mandated pay plan increase. Even though a portion of the amount was covered by appropriations, Winthrop incurred expenses of \$500,000 in excess of the appropriated amount.
- Other Revenues, Expenses, Gains, or Losses increased by \$2.9 million because of an increase in Capital Appropriation revenue. Under GASB 35, Capital Improvement Bond proceeds revenue is only recognized to the extent of expenses incurred. For FY2005, expenses for those projects funded by Capital Improvement Bonds totaled \$4,899,848 as compared to \$1,991,196 in FY2004.

Capital Asset and Debt Activity

In March of 2005, Higher Education Revenue bonds in the amount of \$3 million were issued for the renovation and retrofitting of Lee Wicker and Phelps residence halls. In conjunction with the authorization to issue this series 2005 revenue bonds, the Winthrop University Board of Trustees also approved a Supplemental Series Resolution that authorized Winthrop to combine the pledge of all auxiliary service's net revenues for the 1997, 2002, 2005 and any future bonds issued under the authority of the Higher Education Revenue Bond Act. By combining these pledged revenues, Winthrop may obtain more favorable interest rates as was evidenced with the average interest rate of 3.4% on the 2005 issue.

In fiscal year 2004, the University began construction on the Lois Rhame West Health, Physical Education and Wellness Center. General obligation (State Institution) bonds of \$17 million (issued in August 2005) and \$6.4 million in state capital improvement bonds appropriated by the South Carolina General Assembly will fund this project, which has an expected cost of \$24 million.

Also, in fiscal year 2005, Winthrop borrowed \$970,162 from the State of South Carolina Energy Office. This \$970,162 combined with \$4.5 million borrowed from a financial institution in 2004 are funding an energy savings alterations project that will result in significant savings in energy costs adequate to service the debt on these loans.

Economic Outlook

The University is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the University's economic outlook during the fiscal year that began July 1, 2005. However, the institution recognizes that energy costs, supplies and materials such as wood, roofing, steel and concrete products are expected to rise as a result of the reconstruction after Hurricane Katrina. The result of these rising costs may slow down the progress on future capital projects.

The University's overall financial position is sound. Even though state funding has been reduced since fiscal year 2001, enrollment has been constant, and the institution's level of operations has remained stable.



J. P. McKee
Vice President for Finance and Business



Amanda Maghsoud
Associate Vice President for Finance and Business

WINTHROP UNIVERSITY

Statement of Net Assets

June 30, 2005

ASSETS

CURRENT ASSETS

| | |
|-----------------------------|---------------|
| Cash and Cash Equivalents | \$ 18,921,417 |
| Accounts Receivable, Net | 5,468,658 |
| Inventories | 230,537 |
| Accrued Interest Receivable | 117,912 |
| Prepayments | 363,521 |
| | <hr/> |
| Total Current Assets | 25,102,045 |

NONCURRENT ASSETS

| | |
|-------------------------------|-------------|
| Cash and Cash Equivalents | |
| Restricted | 2,075,401 |
| Endowment | 860,852 |
| Perkins Loans Receivable, Net | 2,575,610 |
| Capital Assets, Net | 73,968,376 |
| | <hr/> |
| Total Noncurrent Assets | 79,480,239 |
| | <hr/> |
| Total Assets | 104,582,284 |

LIABILITIES

CURRENT LIABILITIES

| | |
|--|------------|
| Accounts Payable and Accrued Liabilities | 6,289,674 |
| Deferred Revenue | 1,118,907 |
| Current Portion of Long Term Debt | 2,122,690 |
| Current Portion of Compensated Absences | 1,362,114 |
| | <hr/> |
| Total Current Liabilities | 10,893,385 |

NONCURRENT LIABILITIES

| | |
|--------------------------------|------------|
| Compensated Absences | 1,122,621 |
| Perkins Loan Federal Liability | 2,436,500 |
| Bond Premium on Long Term Debt | 38,096 |
| Long Term Debt | 26,291,271 |
| | <hr/> |
| Total Noncurrent Liabilities | 29,888,488 |
| | <hr/> |
| Total Liabilities | 40,781,873 |

NET ASSETS

| | |
|---|---------------|
| Invested in Capital Assets, Net of Related Debt | 46,300,072 |
| Restricted For: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 485,729 |
| Expendable: | |
| Scholarships and Fellowships | 110,541 |
| Grants | 666,699 |
| Loans | 332,099 |
| Debt Service | 577,207 |
| Unrestricted | 15,328,064 |
| | <hr/> |
| Total Net Assets | \$ 63,800,411 |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

REVENUES

OPERATING REVENUES

| | |
|---|---------------|
| Student Tuition and Fees (of which \$498,490 of Revenues are Pledged for Athletic Facility Revenue Bonds Series 2001A5) (Net of Scholarship Discounts and Allowances of \$16,722,217) | \$ 29,397,363 |
| Grants and Contracts | 18,150,483 |
| Sales and Services of Educational Activities | 1,728,919 |
| Sales and Services of Athletic Activities | 922,347 |
| Sales and Services of Auxiliary Enterprise Activities (of which \$ 2,211,372 of Auxiliary Revenues are Pledged for Auxiliary Facility Revenue Bonds Series 1997, Higher Education Revenue Bonds Series 2002B5 and Higher Education Revenue Bonds Series 2005A3) | 10,028,862 |
| Other Fees | 445,138 |
| Other Operating Revenues | 259,407 |
| Total Operating Revenues | 60,932,519 |

EXPENSES

OPERATING EXPENSES

| | |
|------------------------------|--------------|
| Personnel Costs | 40,166,356 |
| Fringe Benefits | 9,960,208 |
| Service and Supplies | 21,382,133 |
| Utilities | 2,631,825 |
| Scholarships and Fellowships | 4,811,850 |
| Depreciation | 3,612,153 |
| Total Operating Expenses | 82,564,525 |
| Operating Loss | (21,632,006) |

NONOPERATING REVENUES (EXPENSES)

| | |
|---|-------------|
| State Appropriations | 21,158,536 |
| Grants and Contracts | 128,692 |
| Gifts | 1,327,895 |
| Interest Income | 328,378 |
| Interest Expense | (1,127,283) |
| Other Nonoperating Revenues | 840,442 |
| Net Nonoperating Revenues | 22,656,660 |
| Gain Before Other Revenues, Expenses, Gains or Losses | 1,024,654 |
| Capital Appropriations | 4,899,848 |
| Increase in Net Assets | 5,924,502 |

NET ASSETS

| | |
|--------------------------------|---------------|
| Net Assets - Beginning of Year | 57,875,909 |
| Net Assets - End of Year | \$ 63,800,411 |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

CASH RECEIVED FROM

| | |
|--|---------------|
| Student Tuition and Fees (Net of Scholarship Discounts and Allowances) | \$ 29,441,875 |
| Grants and Contracts | 18,326,873 |
| Sales and Services of Educational Activities | 1,758,711 |
| Sales and Services of Athletic Activities | 907,137 |
| Sales and Services of Auxiliary Enterprise Activities | 10,040,808 |
| Other Fees | 445,138 |
| Collection of Loans | 482,493 |
| Receipts of Funds Held for Others | 4,001,600 |
| Inflows from Federal Direct Lending Loans to Students | 20,227,935 |
| Other Receipts | 259,408 |

CASH PAID FOR

| | |
|--|---------------------|
| Personnel Costs | (39,826,701) |
| Fringe Benefits | (9,825,234) |
| Service and Supplies | (22,555,381) |
| Utilities | (2,753,754) |
| Students | (4,731,087) |
| Loans to Students | (644,832) |
| Payments of Funds Held for Others | (3,835,320) |
| Outflows from Federal Direct Lending Loans to Students | (20,198,000) |
| Net Cash Used by Operating Activities | <u>(18,478,331)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-------------------|
| State Appropriations | 20,877,626 |
| Gifts and Grants | 1,346,553 |
| Commissions | 546,793 |
| Other Sources | 236,908 |
| Proceeds from Debt | 3,000,000 |
| Net Cash Provided by Noncapital Financing Activities | <u>26,007,880</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|---------------------|
| Proceeds from Capital Debt | 965,963 |
| Capital Appropriations | 4,998,069 |
| Purchases of Capital Assets | (13,580,380) |
| Principal Paid on Capital Debt and Lease | (1,986,389) |
| Interest and Fees | (1,116,976) |
| Net Cash Used by Capital and Related Financing Activities | <u>(10,719,713)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|----------------------|
| Interest Income | 476,599 |
| Net Cash Provided by Investing Activities | <u>476,599</u> |
| Net Change in Cash and Cash Equivalents | (2,713,565) |
| Cash and Cash Equivalents - Beginning of Year | <u>24,571,235</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 21,857,670</u> |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
Statement of Cash Flows, Continued
For the Year Ended June 30, 2005

**Reconciliation of Operating Loss to Net Cash
Provided (Used) by Operating Activities:**

| | |
|---|-----------------|
| Operating Loss | \$ (21,632,006) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation Expense | 3,612,153 |
| Change in Assets and Liabilities: | |
| Accounts Receivable, Net | (244,151) |
| Inventories | (18,825) |
| Prepayments | 33,379 |
| Accounts Payable and Accrued Liabilities | (847,230) |
| Accrued Salaries and Related Expenses | 192,805 |
| Deferred Revenue | 143,719 |
| Compensated Absences | 281,825 |
| Net Cash Used by Operating Activities | \$ (18,478,331) |

Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

| | |
|---|---------------|
| Cash and Cash Equivalents Classified as Current | \$ 18,921,417 |
| Cash and Cash Equivalents Classified as Noncurrent Restricted | 2,075,401 |
| Cash and Cash Equivalents Classified as Noncurrent Endowment | 860,852 |
| | \$ 21,857,670 |

Non-Cash Transactions:

| | |
|---|------------|
| Acquisition of capital assets through donations | \$ 121,170 |
| Disposal of capital assets | (33,346) |
| | \$ 87,824 |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY
COMPONENT UNIT - THE WINTHROP UNIVERSITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004
(With comparative information for December 31, 2003)

| Assets | Unrestricted Fund | Restricted Funds | Endowment Funds | Split- Interest Trusts | Alumni Association Agency Fund | December 31, 2004 Total All Funds | June 30, 2004 Total All Funds |
|---|----------------------|---------------------|--------------------|------------------------------|---|--|--|
| Assets: | | | | | | | |
| Cash and Equivalents | \$ 83 | 97,151 | 793,872 | 10,846 | 5,132 | \$ 907,084 | \$ 1,076,057 |
| Accrued Interest and Dividends | - | 8,089 | 66,097 | 16,599 | 427 | 91,212 | 70,106 |
| Contributions Receivable | 43,851 | 58,257 | 286,090 | 973,825 | - | 1,362,023 | 1,737,247 |
| Other Receivable | 68,592 | - | - | - | - | 68,592 | 88,514 |
| Pooled Investments, at Fair Value | - | 2,606,321 | 21,297,540 | 4,752 | 137,665 | 24,046,278 | 23,048,453 |
| Investments, at Fair Value | - | - | - | 1,298,073 | - | 1,298,073 | 727,134 |
| Beneficial Interest in Perpetual Trust | - | - | - | 456,918 | - | 456,918 | 150,983 |
| Due (to) from Other Funds | 143,215 | (15,523) | (126,844) | (28) | (820) | - | - |
| Cash Value of Life Insurance | 56,836 | 18,514 | 68,826 | - | - | 144,176 | 132,101 |
| Office Furniture & Equipment, at Cost Net of Depreciation of \$71277 | 15,985 | - | - | - | - | 15,985 | 15,119 |
| Total Assets | 328,562 | 2,772,809 | 22,385,581 | 2,760,985 | 142,404 | 28,390,341 | 27,045,714 |
| Liabilities and Net Assets | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable | 325,532 | - | - | - | - | 325,532 | 30,647 |
| Actuarial Liability of Annuities Payable | - | - | - | 474,147 | - | 474,147 | 514,847 |
| Agency Funds | - | - | - | - | 142,404 | 142,404 | 122,235 |
| Total Liabilities | 325,532 | - | - | 474,147 | 142,404 | 942,083 | 667,729 |
| Net Assets: | | | | | | | |
| Unrestricted | 3,030 | - | - | - | - | 3,030 | (76,122) |
| Temporarily Restricted | - | 2,772,809 | 3,381,969 | - | - | 6,154,778 | 6,241,360 |
| Permanently Restricted | - | - | 19,003,612 | 2,286,838 | - | 21,290,450 | 20,212,747 |
| Total Net Assets | 3,030 | 2,772,809 | 22,385,581 | 2,286,838 | - | 27,448,258 | 26,377,985 |
| | \$ 328,562 | 2,772,809 | 22,385,581 | 2,760,985 | 142,404 | \$ 28,390,341 | \$ 27,045,714 |

The accompanying notes are an integral part of the financial statements.

WINTHROP UNIVERSITY
COMPONENT UNIT - THE WINTHROP UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004
(With comparative information for the six months ended December 31, 2003)

| | Temporarily Restricted Net Assets | | | | Permanently Restricted Net Assets | | | Year Ended December 31, | Six Months Ended December 31, |
|---|--------------------------------------|---------------------|--------------------|--------------------|--------------------------------------|------------------------------|------------------|-------------------------------|-------------------------------------|
| | Unrestricted Net Assets | Restricted Funds | Endowment Funds | Total | Endowment Funds | Split- Interest Trusts | Total | 2004 Total All Funds | 2003 Total All Funds |
| | | | | | | | | | |
| Revenues, Gains and Other Support: | | | | | | | | | |
| Contributions | \$ 510,355 | 531,517 | - | 531,517 | 706,591 | 280,178 | 986,769 | \$ 2,028,641 | \$ 1,150,884 |
| Investment Earnings | 653,457 | 87,384 | - | 87,384 | 1,133,202 | 25,758 | 1,158,960 | 1,899,801 | 1,889,082 |
| Increase (Decrease) in Cash Surrender Value | 12,505 | 608 | - | 608 | (542) | - | (542) | 12,571 | (1,235) |
| Provision for Uncollectible Pledges | (4,845) | 9,952 | - | 9,952 | (34,722) | - | (34,722) | (29,615) | 150,029 |
| Change in Value of Split-Interest Trust | - | - | - | - | - | 105,019 | 105,019 | 105,019 | 66,775 |
| | <u>1,171,472</u> | <u>629,461</u> | <u>-</u> | <u>629,461</u> | <u>1,804,529</u> | <u>410,955</u> | <u>2,215,484</u> | <u>4,016,417</u> | <u>3,255,535</u> |
| Net Assets Released From Restriction - Scholarships and Grants | <u>1,796,986</u> | <u>(1,796,986)</u> | <u>-</u> | <u>(1,796,986)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Expenses: | | | | | | | | | |
| Operating Expenditures: | | | | | | | | | |
| Salaries and Benefits | 142,164 | - | - | - | - | - | - | 142,164 | 64,760 |
| Directors, Expenses | 294 | - | - | - | - | - | - | 294 | 61 |
| Rent | 4,831 | - | - | - | - | - | - | 4,831 | 4,551 |
| Telephone | 1,031 | - | - | - | - | - | - | 1,031 | 2,180 |
| Office Supplies and Postage | 16,359 | - | - | - | - | - | - | 16,359 | 4,957 |
| Insurance | 1,739 | - | - | - | - | - | - | 1,739 | 1,034 |
| Professional Fees | 91,173 | - | - | - | - | - | - | 91,173 | 20,188 |
| Investment Fees | 7,681 | - | - | - | - | - | - | 7,681 | 1,147 |
| Computer Software | 2,593 | - | - | - | - | - | - | 2,593 | 2,692 |
| Depreciation | 8,449 | - | - | - | - | - | - | 8,449 | 4,616 |
| Travel and Entertainment | 25,375 | - | - | - | - | - | - | 25,375 | 15,720 |
| | <u>\$ 301,689</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>\$ 301,689</u> | <u>\$ 121,906</u> |

The accompanying notes are an integral part of the financial statements.

WINTHROP UNIVERSITY
COMPONENT UNIT - THE WINTHROP UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004
(With comparative information for the six months ended December 31, 2003)

| | Temporarily Restricted Net Assets | | | | Permanently Restricted Net Assets | | | Year Ended December 31, | Six Months Ended December 31, |
|---------------------------------------|--------------------------------------|---------------------|--------------------|------------------|--------------------------------------|------------------------------|-------------------|-------------------------------|-------------------------------------|
| | Unrestricted Net Assets | Restricted Funds | Endowment Funds | Total | Endowment Funds | Split- Interest Trusts | Total | 2004 Total All Funds | 2003 Total All Funds |
| | | | | | | | | | |
| Fund Raising: | | | | | | | | | |
| Development Salaries | \$ 282,443 | - | - | - | - | - | - | \$ 282,443 | \$ 29,971 |
| Major Gifts | 880 | - | - | - | - | - | - | 880 | - |
| Annual Fund | 69,756 | - | - | - | - | - | - | 69,756 | 3,525 |
| Planned Giving | 6,512 | - | - | - | - | - | - | 6,512 | 2,332 |
| Prospect Research | 8,405 | - | - | - | - | - | - | 8,405 | - |
| Donor Relations | 1,996 | - | - | - | - | - | - | 1,996 | 238 |
| Campaign | - | - | - | - | - | - | - | - | 34,624 |
| | <u>369,992</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>369,992</u> | <u>70,690</u> |
| Grants to Winthrop University: | | | | | | | | | |
| General Scholarships | 211,310 | - | - | - | - | - | - | 211,310 | 125,801 |
| Restricted Scholarships and Grant | 1,796,986 | - | - | - | - | - | - | 1,796,986 | 271,405 |
| Alumni Association | 93,000 | - | - | - | - | - | - | 93,000 | 41,500 |
| Faculty Awards | 6,000 | - | - | - | - | - | - | 6,000 | - |
| Presidents Salary Supplement | 74,991 | - | - | - | - | - | - | 74,991 | 66,015 |
| University Publications | 37,450 | - | - | - | - | - | - | 37,450 | 13,227 |
| Advancement | 29,623 | - | - | - | - | - | - | 29,623 | 14,317 |
| University Events | 25,103 | - | - | - | - | - | - | 25,103 | 14,567 |
| | <u>2,274,463</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,274,463</u> | <u>546,832</u> |
| Total Expenses | <u>2,946,144</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,946,144</u> | <u>739,428</u> |
| Net Transfers | 56,838 | 876,443 | 204,500 | 1,080,943 | (1,137,781) | - | (1,137,781) | - | - |
| Net Increase (Decrease) in Net Assets | 79,152 | (291,082) | 204,500 | (86,582) | 666,748 | 410,955 | 1,077,703 | 1,070,273 | 2,516,107 |
| Net Assets, Beginning of Period | (76,122) | 3,063,891 | 3,177,469 | 6,241,360 | 18,336,864 | 1,875,883 | 20,212,747 | 26,377,985 | 23,861,878 |
| Net Assets, End of Period | <u>\$ 3,030</u> | <u>2,772,809</u> | <u>3,381,969</u> | <u>6,154,778</u> | <u>19,003,612</u> | <u>2,286,838</u> | <u>21,290,450</u> | <u>\$ 27,448,258</u> | <u>\$ 26,377,985</u> |

The accompanying notes are an integral part of the financial statements.

WINTHROP UNIVERSITY
COMPONENT UNIT
WINTHROP UNIVERSITY REAL ESTATE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004

| Assets | |
|---|---------------|
| Current Assets: | |
| Cash and Cash Equivalents | |
| Unrestricted | \$ 141,279 |
| Reserved | 2,365,886 |
| Total Cash | 2,507,165 |
| Accounts Receivable | 123,634 |
| Total Current Assets | 2,630,799 |
| Property and Equipment: | |
| Property and Equipment, Net of Accumulated Depreciation | 16,318,859 |
| Other Assets: | |
| Bond Closing Costs, Net of Amortization | 448,328 |
| Total Assets | \$ 19,397,986 |
| Liabilities and Net Assets | |
| Current Liabilities: | |
| Accounts Payable | \$ 856,058 |
| Short-Term Borrowings | 95,123 |
| Current Portion of Long-Term Debt | 260,000 |
| Total Current Liabilities | 1,211,181 |
| Long-Term Debt : | |
| Bonds Payable | 18,730,000 |
| Notes Payable | 4 |
| Less Current Portion of Long Term Debt | (260,000) |
| Total Long-Term Debt | 18,470,004 |
| Total Liabilities | 19,681,185 |
| Net Assets | |
| Unrestricted | (283,199) |
| Total Net Assets | (283,199) |
| Total Liabilities and Net Assets | \$ 19,397,986 |

The accompanying notes are an integral part of the financial statements.

WINTHROP UNIVERSITY
COMPONENT UNIT
WINTHROP UNIVERSITY REAL ESTATE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

| | |
|--|----------------------------|
| Operating Revenues and Other Support: | |
| Room Charges and Occupancy Fees | \$ 1,870,776 |
| Cafeteria Fees and Vending Commissions | 213,163 |
| Revenue from Contributions of Land | 12,000 |
| Rental Income from Winthrop University | 13,500 |
| Other Operating Revenues | 34,715 |
| Total Operating Revenues and Other Support | <u>2,144,154</u> |
| | |
| Operating Expenses | <u>1,399,840</u> |
| Net Operating Revenues and Support Over Expenses | <u>744,314</u> |
| | |
| Nonoperating (Revenues) and Expenses | |
| Interest Income | (13,900) |
| Loss on Sale of Property | 2,000 |
| Letter of Credit Fees | 243,648 |
| Remarketing Fees | 23,414 |
| Interest Rate Swap Fees | 527,693 |
| Trustee Fees | 9,096 |
| Amortization Expense | 16,303 |
| Interest Expense | 226,587 |
| Net Nonoperating Revenues and Expenses | <u>1,034,841</u> |
| Net Increase (Decrease) in Net Assets | (290,527) |
| | |
| Net Assets, June 30, 2003 | <u>7,328</u> |
| | |
| Net Assets, December 31, 2004 | <u><u>\$ (283,199)</u></u> |

The accompanying notes are an integral part of the financial statements.

WINTHROP UNIVERSITY
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Winthrop University (the "University") is a State-supported, coeducational institution of higher education. Winthrop's primary mission is to provide personalized and challenging undergraduate, graduate and continuing professional education programs of national caliber within a context dedicated to public service to the State of South Carolina. All eligible bachelor, master and specialist degrees in the liberal arts and sciences, education, business and the visual and performing arts are nationally accredited.

Reporting Entity: Winthrop University is part of the primary government of the State of South Carolina. The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, and amended by GASB 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The University has determined that the financial reporting entity consists of the primary government, Winthrop University, as well as its' component units, The Winthrop University Foundation (the Foundation) and Winthrop University Real Estate Foundation, Inc. (WUREF, Inc.).

The Foundation, a legally separate component unit of Winthrop University, is an independent not-for-profit tax exempt public charity organized to foster, cooperate, and assist in the growth, development, and advancement of the University. The Foundation is governed by an independent Board of Directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University.

The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below, and because their financial year does not coincide with the University's. Effective July 1, 2003, the Foundation changed its financial year-end from June 30 to December 31. Therefore, the accompanying statement of activities is for the year ended December 31, 2004. Complete financial statements for the Foundation can be obtained by calling 803-323-2229.

WUREF, Inc., also a legally separate component unit of Winthrop University, is a nonprofit corporation organized under the laws of the State of South Carolina in August 1999. WUREF, Inc. was formed for the benefit of the University and their stated purpose is to encourage gifts of real estate and to develop, own, manage, lease and sell real property for the University.

In fulfilling this purpose, WUREF, Inc. has formed two separate, wholly owned organizations. In December 2001, WUREF Development, LLC (WUREF, LLC) was created in order to construct a new student housing opportunity for the University. The Courtyard at Winthrop, a 406-bed, townhouse-style housing facility was completed and opened for occupancy in January 2003. WUREF LLC' charge is to ensure the continued viability of the Courtyard through maximum occupancy percentages and fiscal responsibility, and to build revenue for future housing development.

In November 2003, WUREF, Inc. also formed Winthrop Real Estate, LLC (WRE, LLC). WRE, LLC was created in order to develop, own, manage, lease and sell real property for the University.

All financial activities of the two separate organizations have been included in the financial statements of WUREF, Inc.

The majority of resources, or income thereon, that the WUREF, Inc. holds and invests are restricted to the activities of the University. Because these restricted resources held by the WUREF, Inc. can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Reporting Entity: Continued

WUREF, Inc. is reported in separate financial statements because of the difference in its reporting model, as further described below, and because their financial year does not coincide with the University's. WUREF, Inc. previously maintained a June 30 accounting year-end. On October 21, 2003, the board of directors elected to revise its fiscal year end to December 31, effective January 2004, giving rise to an eighteen-month accounting period for the prior reporting period. The current, and all subsequent year, financial statements cover a twelve-month accounting period. Complete financial statements for WUREF, Inc. can be obtained by calling 803-323-2374.

The Foundation and WUREF, Inc. report their financial results in accordance with Financial Accounting Standard Board (FASB) Statements. Most significant to their operations and reporting models are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit-Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to either the Foundation or WUREF, Inc.'s financial information in the University's financial reporting entity for these differences, however significant note disclosures (See Note 16) to the Foundation and WUREF Inc.'s financial statements have been incorporated into the University's Notes to the Financial Statements.

Basis of Presentation: Effective July 1, 2001, the financial statement presentation for the University has been prepared to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The University also meets the requirements of GASB Statements 36, 37, 38 and 39 that were issued to amend Statements 34 and 35. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, was issued to amend Statement 3 and became effective for this fiscal year. All of the University's investments are held by the State Treasurer, with the exception of the Perkins Loan Program whose funds are fully covered by depository insurance (see Note 2). Please see the FY 2005 Comprehensive Annual Financial Report of the State for information on investments.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-institutional transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students. Accounts receivable also include amounts due from the Federal government, State and Local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The Perkins Loan Receivable is presented entirely as noncurrent (see Note 4).

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventories: Inventories are carried at cost determined by using the first in first out method for all inventories except Printing Services whose inventory is based on "last price paid" and the Health Center inventory of pharmaceutical drugs and miscellaneous items which is based on last in first out.

Prepayments: Prepayments arise when the University pays for goods or services in advance. Such transactions typically occur for insurance and travel. The policy is to record as a prepayment any transaction over \$500 for which payment had been made prior to June 30, 2005 but for which the goods or services would not be received until after July 1, 2005.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The University has selected a useful life of 25 to 50 years for buildings, renovations and land improvements. The useful life for machinery, equipment and vehicles varies between 2 and 25 years depending on the asset. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

Interest cost incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed net of interest earned on the invested proceeds over the same period. During the year ended June 30, 2005, there were no material capitalized interest costs incurred.

Deferred Charges: Deferred charges are typically associated with the issue of bonds. When material, these charges are amortized over the life of the bond. As of June 30, 2005, the University had no material deferred charges.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Other types of deferred revenues represent residence hall room deposits, security deposits for possible room damage and key loss, admissions deposits and other miscellaneous 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.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses and Changes in Net Assets.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources and then to unrestricted resources.

Classification of Revenues: The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, health services and other related services to students; (2) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (3) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake. Certain indentures require the University to pledge various revenues to meet debt payments. The University has disclosed those revenues pledged on the face of the Statement of Revenues, Expenses and Changes in Net Assets.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, interest income and any grants and contracts that are not classified as operating revenues or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Sales and Services of Athletic Activities: Revenues from sales and services of athletic activities generally consist of amounts received from athletic event ticket sales, advertising sales and participatory fees received from opposing teams.

Sales and Services of Auxiliary Enterprises Activities: Auxiliary enterprise revenues primarily represent revenues generated by housing, cafeterias, health services, vending and bookstore. Internal services of auxiliary enterprise activities and the related expenditures of University departments have been eliminated.

Use of Estimates in Accounting: The University has used estimates in certain situations to enable it to properly prepare the financial statements. Estimates are used to determine the useful life of long-lived assets such as buildings and equipment. The University has used estimates as provided by the South Carolina Comptroller General's Office in developing the estimates of useful lives. In addition, the University has estimated the percentage of accounts receivable that may not be collected, typically known as the allowance for doubtful accounts. The University uses an aging analysis to estimate this allowance - the longer the accounts receivable has gone unpaid, the greater the possibility the amount will not be collected.

Income Taxes: Winthrop University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Component Units: See Note 16.

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS

All deposits of the University are under the control of the State Treasurer, who by State law, has sole authority for investing State funds.

The following schedule reconciles Deposits to the Statement of Net Assets amounts:

| | |
|--|----------------------|
| STATEMENT OF NET ASSETS: | |
| Cash and Cash Equivalents - Current | \$ 18,921,417 |
| Cash and Cash Equivalents - Restricted | |
| Debt Service | 1,122,675 |
| Capital Project | 261,231 |
| Student Loan | 149,345 |
| Grants and Contracts | 517,150 |
| Other | 25,000 |
| Cash and Cash Equivalents - Endowment | 860,852 |
| Total | <u>\$ 21,857,670</u> |
| DEPOSITS: | |
| Cash on Hand | \$ 976,514 |
| Deposits Held by State Treasurer | 20,856,156 |
| Other Deposits | 25,000 |
| Total | <u>\$ 21,857,670</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS, Continued

Cash on Hand

At June 30, 2005, Winthrop University had approximately \$69,027 in an account with a Financial Institution for exclusive use by the Perkins Loan Program.

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, 2005, Winthrop University had \$20,856,156 in Deposits Held by State Treasurer and all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits

Other deposits include \$25,000 held by the Federal Government for Perkins Loan Program participation.

Concentrations of Credit Risk - Non Governmental Discretely Presented Component Units

The Winthrop University Foundation

The Foundation's concentration of potential credit risk lies primarily with its investments. This exposure is limited by the Foundation's investment objectives and policies adopted by its Board of Directors. The Foundation also had a concentration of cash in bank accounts that exceeded FDIC insurance limits by \$807,084 at December 31, 2004. These deposits were all in a high credit quality institution.

Winthrop University Real Estate Foundation, Inc.

WUREF, Inc. maintains bank accounts at various banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at an individual institution up to \$100,000. The amounts on deposit at each bank, at times during the year, may have exceeded the federally insured limit. The amount in excess of the federally insured limit at December 31, 2004 was \$2,407,165.

Reserved Cash And Cash Equivalents - Non Governmental Discretely Presented Component Unit

Winthrop University Real Estate Foundation, Inc.

The reserved cash represents monies on deposit within WUREF, LLC. These funds are provided by and/or are in connection with the issuance of bonds for the purposes of The Courtyard at Winthrop. The funds were obtained either from the proceeds of the issuance of the bonds, or were allocated from operations to the reserve accounts in compliance with covenants agreed upon in connection with the bond issuance. The reserve accounts at December 31, 2004 are as follows:

| | |
|--|---------------------|
| Debt service reserve fund | \$ 1,330,178 |
| Operating contingency restricted reserve | 301,833 |
| Operating contingency reserve | 375,454 |
| Bond reserve fund | 157,146 |
| Repair and replacement reserve fund | 201,073 |
| Other miscellaneous reserve funds | <u>202</u> |
| | <u>\$ 2,365,886</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS, Continued

Investments - Non Governmental Discretely Presented Component Unit

The Winthrop University Foundation

Investments at December 31, 2004 are summarized as follows:

| | <u>Cost</u> | <u>Market</u> |
|-----------------|----------------------|-------------------|
| Municipal Bonds | \$ 694,498 | 730,970 |
| Common Stocks | 187,097 | 20,423 |
| Mutual Funds: | | |
| Fixed Income | 11,421,817 | 11,749,375 |
| Equity | <u>11,768,312</u> | <u>12,843,583</u> |
| | <u>\$ 24,071,774</u> | <u>25,344,351</u> |

Investment earnings for the six months ended December 31, 2004 consisted of:

| | |
|-------------------------------|---------------------|
| Dividends and Interest | \$ 447,513 |
| Realized Gains (Losses) Net | 983,918 |
| Unrealized Gains (Losses) Net | <u>508,125</u> |
| | <u>\$ 1,939,556</u> |

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2005, are summarized as follows:

| | |
|---|---------------------|
| State Appropriations | \$ 2,510,162 |
| Student Accounts | 1,214,094 |
| Less Allowance for Doubtful Accounts | (73,800) |
| Student Loans Receivable - Federal Perkins | 2,575,610 |
| Less Allowance for Doubtful Accounts | - |
| Federal Grants and Contracts | 436,030 |
| State Grants and Contracts | 135,807 |
| Local Grants and Contracts | 15,728 |
| Foundation | 597,627 |
| Capital Improvement Bond Funds | 560,781 |
| Other | <u>72,229</u> |
| Total Accounts Receivable, Net of Allowance | 8,044,268 |
| Less: Noncurrent Perkins Loan Receivable (See Note 4) | <u>(2,575,610)</u> |
| Accounts Receivable, Net - Current | <u>\$ 5,468,658</u> |

The State appropriations receivable represents monies due from the State General Fund for applicable University personnel services and employer contribution expenditures accrued at June 30 but paid in July from 2004-2005 appropriations. State law provides for such payroll costs to be paid from next year's appropriations.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 3 - ACCOUNTS RECEIVABLE, Continued

Allowances for doubtful accounts for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2005, the allowance for uncollectible student accounts is valued at \$73,800.

The capital improvement bond funds receivable represents funds held by the State Treasurer that have been expended but not drawn.

Contributions Receivable - Non Governmental Discretely Presented Component Unit

The Winthrop University Foundation

Contributions receivable consist of pledges receivable and estimated receivables from split-interest trusts for which the Foundation is the remainder beneficiary but not the trustee. They are summarized as follows at December 31, 2004:

Unconditional promises expected to be collected in:

| | | |
|---|-----------|------------------|
| Less than One Year | \$ | 21,956 |
| One to Five Years | | 478,786 |
| Over Five Years | | <u>1,066,238</u> |
| | | 1,566,980 |
| Less Unamortized Discount | | <u>(70,693)</u> |
| | | 1,496,287 |
| Less Allowance for Uncollectible Promises | | <u>(134,264)</u> |
| Net Unconditional Promises to Give | <u>\$</u> | <u>1,362,023</u> |

Discount rates ranged from 3.0% to 6.6%.

NOTE 4 - PERKINS LOANS RECEIVABLE AND FEDERAL LIABILITY

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans receivable as of June 30, 2005. The entire receivable balance, as well as cash on hand associated with the program, is classified as Noncurrent Restricted Assets. The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the U.S. Department of Education. At June 30, 2005, the allowance for uncollectible student loans is valued at \$-0- because the U.S. Department of Education has the ultimate responsibility for collecting the loan.

The funds contributed by the Federal Government are refundable in the event the University decides to no longer participate in the program. Although the University plans to consider participating in the Perkins Loan Program for the foreseeable future, the University has recorded a long-term liability in the amount of \$2,436,500, representing the Federal portion of the loan program at June 30, 2005. The U.S. Congress began discussions regarding the reauthorization of Title 20 USC Sec 1087ff dealing with the Perkins Loan Program during fiscal year 2005. Although the University has no knowledge that any changes in the current program are anticipated, the law provides for the refunding of all Federal Capital Contributions beginning March 31, 2005 and continuing through March 31, 2012 (as proceeds are received from borrowers repaying their loans) if the program is not reauthorized.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is summarized as follows:

| | Beginning Balance <u>July 1, 2004</u> | <u>Increases</u> | <u>Decreases</u> | Ending Balance <u>June 30, 2005</u> |
|---|---|--------------------|--------------------|---|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 2,232,414 | - | - | 2,232,414 |
| Construction in Progress | 4,313,439 | 12,961,941 | (8,801,082) | 8,474,298 |
| Collections | 44,500 | - | - | 44,500 |
| Total Capital Assets Not Being Depreciated | <u>6,590,353</u> | <u>12,961,941</u> | <u>(8,801,082)</u> | <u>10,751,212</u> |
| Other Capital Assets: | | | | |
| Buildings and Improvements | 93,552,716 | 8,986,556 | (418,387) | 102,120,885 |
| Machinery, Equipment and Other | 5,383,846 | 539,420 | (64,699) | 5,858,567 |
| Vehicles | 756,510 | 14,715 | (42,150) | 729,075 |
| Total Other Capital Assets at Historical Cost | <u>99,693,072</u> | <u>9,540,691</u> | <u>(525,236)</u> | <u>108,708,527</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings and Improvements | (38,376,339) | (3,126,815) | 418,387 | (41,084,767) |
| Machinery, Equipment and Other | (3,443,598) | (449,558) | 23,965 | (3,869,191) |
| Vehicles | (551,163) | (35,780) | 49,538 | (537,405) |
| Total Accumulated Depreciation | <u>(42,371,100)</u> | <u>(3,612,153)</u> | <u>491,890</u> | <u>(45,491,363)</u> |
| Capital Assets, Net | <u>\$ 63,912,325</u> | <u>18,890,479</u> | <u>(8,834,428)</u> | <u>73,968,376</u> |

Invested in capital assets, net of related debt, of \$46,300,072 as of June 30, 2005 is determined as follows:

| | |
|---|----------------------|
| Capital Assets, Net | \$ 73,968,376 |
| Less Debt: | |
| Current Portion of Long Term Debt | (2,122,690) |
| Long Term Debt | (26,291,271) |
| Bond Premium of Long Term Debt | (38,096) |
| Plus Unspent Bond Proceeds | <u>783,753</u> |
| Total Invested in Capital Assets, Net of Related Debt | <u>\$ 46,300,072</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 5 - CAPITAL ASSETS, Continued

Property and Equipment - Non Governmental Discretely Presented Component Unit

Winthrop University Real Estate Foundation, Inc.

Account balances as of December 31, 2004 are as follows:

| | |
|-------------------------------|----------------------|
| Land | \$ 540,985 |
| Buildings | 15,922,852 |
| Furniture and Fixtures | 680,414 |
| Machinery and Equipment | <u>14,526</u> |
| | 17,158,777 |
| Less Accumulated Depreciation | <u>(839,918)</u> |
| | <u>\$ 16,318,859</u> |

Depreciation charged to expense was \$420,501. This is a non-cash expense.

Property and equipment is recorded at cost when purchased and fair value when donated. Maintenance and repairs are charged to expense as incurred, while major renewals and betterments are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations. Depreciation is calculated based upon the straight-line method over the assets useful life of each asset. The estimated useful lives utilized are 50 years for buildings and improvements, 7 years for furniture and fixtures, and 3 years for computer equipment.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities as of June 30, 2005, are summarized as follows:

| | |
|---|---------------------|
| CURRENT | |
| Accrued Payroll and Related Liabilities | \$ 3,818,982 |
| Trade Payables | 1,459,462 |
| Accrued Interest Payable | 282,782 |
| Student Deposits and Prepayments | 253,549 |
| Construction Contract Retainage | 453,010 |
| Other Accrued Liabilities | <u>21,889</u> |
| Total Accounts Payable | <u>\$ 6,289,674</u> |

Accounts Payable - Non Governmental Discretely Presented Component Unit

Winthrop University Real Estate Foundation, Inc.

At December 31, 2004, accounts payable consisted of \$67,123 in funds owed to The Winthrop University Foundation, a separate but related organization. Accounts payable also includes \$788,283 in funds owed to Winthrop University in connection with amounts due to them for management of The Courtyard. The remaining accounts payable of \$652 is accrued interest.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES, Continued

Short-Term Borrowings - Non Governmental Discretely Presented Component Unit

Winthrop University Real Estate Foundation, Inc.

On November 20, 2003, Winthrop Real Estate, LLC obtained a commercial loan for the purpose of purchasing land and a building on Stewart Street in Rock Hill, adjacent to the campus. The loan is structured as an interest only loan, which matures on November 20, 2005. The loan bears interest at a variable interest rate of the 30-day LIBOR rate, plus 1.50%. At December 31, 2004, the resulting rate was 3.490%. The loan is secured by a mortgage on the property, as well as a lease and rents assignment agreement. As discussed later, effective January 1, 2004, WRE, LLC entered into a lease agreement with Winthrop University for Winthrop's use of the facilities.

NOTE 7 - LONG-TERM DEBT

Long-term debt for the year ended June 30, 2005 is as follows:

| | June 30, 2004 | Addition | Reductions | June 30, 2005 | Due Within One Year |
|--|----------------------|------------------|--------------------|-------------------|------------------------|
| Bonds, Notes and Capital Leases | | | | | |
| General Obligation Bonds | \$ 14,185,000 | - | (700,000) | 13,485,000 | 745,000 |
| Unamortized Premium | 42,295 | - | (4,199) | 38,096 | - |
| Athletic Facilities | 2,040,000 | - | (120,000) | 1,920,000 | 120,000 |
| Auxiliary Facilities | 394,272 | - | (63,264) | 331,008 | 66,772 |
| Higher Education Facilities | 4,325,000 | 3,000,000 | (350,000) | 6,975,000 | 570,000 |
| Notes Payable | 676,899 | 970,162 | (80,421) | 1,566,640 | 205,988 |
| Master Lease Program | | | | | |
| Notes Payable | 4,802,562 | - | (666,249) | 4,136,313 | 414,930 |
| Capital Lease Obligations (See Note 8) | 6,454 | - | (6,454) | - | - |
| Total Bonds, Notes and Capital Leases | 26,472,482 | 3,970,162 | (1,990,587) | 28,452,057 | 2,122,690 |
| Other Liabilities | | | | | |
| Accrued Compensated Absences | 2,202,911 | 1,626,015 | (1,344,191) | 2,484,735 | 1,362,114 |
| Perkins Loan Federal Liability | 2,440,885 | - | (4,385) | 2,436,500 | - |
| Total Other Liabilities | 4,643,796 | 1,626,015 | (1,348,576) | 4,921,235 | 1,362,114 |
| Total Long-Term Liabilities | \$ 31,116,278 | 5,596,177 | (3,339,163) | 33,373,292 | 3,484,804 |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

Bonds Payable

Bonds payable consisted of the following at June 30, 2005:

| | <u>Rates</u> | <u>Dates</u> | <u>Balance</u> |
|-----------------------------------|---------------|--------------|----------------------|
| General Obligation Bonds | | | |
| Series 1993A | 4.1% to 5.2% | 03/01/08 | \$ 760,000 |
| Series 2001A2 | 4.3% to 4.9% | 10/01/20 | 3,285,000 |
| Series 2001B5 | 4.5% to 5.5% | 10/01/21 | 1,120,000 |
| Series 2003C | 3.5% to 4.75% | 04/01/22 | 3,020,000 |
| Series 2004A1 | 3.0% to 5.0% | 12/01/21 | <u>5,300,000</u> |
| Total General Obligation Bonds | | | 13,485,000 |
| Athletic Facilities | | | |
| Revenue Bonds Series 2001A5 | 4.59% | 10/01/20 | <u>1,920,000</u> |
| Auxiliary Facilities | | | |
| Revenue Bonds Series 1997 | 5.47% | 11/01/09 | <u>331,008</u> |
| Higher Education Facilities | | | |
| Revenue Bonds Series 2002B5 | 4.58% | 01/01/14 | 3,975,000 |
| Revenue Bonds Series 2005A3 | 3.40% | 04/01/17 | <u>3,000,000</u> |
| Total Higher Education Facilities | | | <u>6,975,000</u> |
| Total Bonds Payable | | | <u>\$ 22,711,008</u> |

General Obligation Bonds are backed by the full faith, credit and taxing power of the State of South Carolina. Tuition revenue is pledged up to the amount of annual debt requirements for the payment of principal and interest on General Obligation Bonds. The legal debt margin for General Obligation Bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received from tuition and fees for the preceding fiscal year. Tuition bond fees for the preceding year 2004 were \$3,299,296, which results in a legal annual debt service at June 30, 2005 of \$2,969,366.

The Athletic Facilities Revenue Bond covenants require the University to pledge revenues from a special student fee imposed upon students as part of the cost of attending the University and a special admissions fee on all paid admissions to athletic facilities. The Auxiliary Facilities Revenue Bond covenants require the University to pledge the revenues of the bookstore for payment of principal and interest. The Higher Education Facilities Bond covenants require the University to pledge the net revenues from housing facilities for payment of principal and interest.

The scheduled maturities of the bonds payable by type are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|--------------------------|-------------------|-----------------|-----------------|
| General Obligation Bonds | | | |
| 1993A 2006 | \$ 240,000 | 39,280 | 279,280 |
| 2007 | 255,000 | 27,040 | 282,040 |
| 2008 | 265,000 | 13,780 | 278,780 |
| 2009 | - | - | - |
| 2010 | - | - | - |
| Thereafter | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Series 1993A Bonds | <u>\$ 760,000</u> | <u>80,100</u> | <u>840,100</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

| | | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|-------------------------------------|-----------|---------------------|------------------|------------------|
| General Obligation Bonds, Continued | | | | |
| 2001A2 | 2006 | \$ 135,000 | 147,297 | 282,297 |
| | 2007 | 145,000 | 141,347 | 286,347 |
| | 2008 | 150,000 | 135,079 | 285,079 |
| | 2009 | 155,000 | 128,598 | 283,598 |
| | 2010 | 165,000 | 121,797 | 286,797 |
| | 2011-2015 | 970,000 | 491,102 | 1,461,102 |
| | 2016-2020 | 1,265,000 | 233,696 | 1,498,696 |
| | 2021-2022 | <u>300,000</u> | <u>7,350</u> | <u>307,350</u> |
| Total Series 2001A2 Bonds | | <u>\$ 3,285,000</u> | <u>1,406,266</u> | <u>4,691,266</u> |
| 2001B5 | 2006 | \$ 45,000 | 54,060 | 99,060 |
| | 2007 | 45,000 | 51,585 | 96,585 |
| | 2008 | 50,000 | 49,222 | 99,222 |
| | 2009 | 50,000 | 46,972 | 96,972 |
| | 2010 | 55,000 | 44,576 | 99,576 |
| | 2011-2015 | 305,000 | 181,716 | 486,716 |
| | 2016-2020 | 390,000 | 97,214 | 487,214 |
| | 2021-2022 | <u>180,000</u> | <u>9,481</u> | <u>189,481</u> |
| Total Series 2001B5 Bonds | | <u>\$ 1,120,000</u> | <u>534,826</u> | <u>1,654,826</u> |
| 2003C | 2006 | \$ 115,000 | 124,138 | 239,138 |
| | 2007 | 125,000 | 120,112 | 245,112 |
| | 2008 | 130,000 | 115,738 | 245,738 |
| | 2009 | 135,000 | 111,188 | 246,188 |
| | 2010 | 140,000 | 106,462 | 246,462 |
| | 2011-2015 | 825,000 | 450,068 | 1,275,068 |
| | 2016-2020 | 1,050,000 | 263,538 | 1,313,538 |
| | 2021-2022 | <u>500,000</u> | <u>35,740</u> | <u>535,740</u> |
| Total Series 2003C Bonds | | <u>\$ 3,020,000</u> | <u>1,326,984</u> | <u>4,346,984</u> |
| 2004A1 | 2006 | \$ 210,000 | 193,531 | 403,531 |
| | 2007 | 225,000 | 182,656 | 407,656 |
| | 2008 | 235,000 | 171,156 | 406,156 |
| | 2009 | 245,000 | 159,156 | 404,156 |
| | 2010 | 255,000 | 147,932 | 402,932 |
| | 2011-2015 | 1,445,000 | 609,438 | 2,054,438 |
| | 2016-2020 | 1,825,000 | 338,166 | 2,163,166 |
| | 2021-2022 | <u>860,000</u> | <u>34,275</u> | <u>894,275</u> |
| Total Series 2004A1 Bonds | | <u>\$ 5,300,000</u> | <u>1,836,310</u> | <u>7,136,310</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

| | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|--|---------------------|-----------------|------------------|
| Athletic Facilities Revenue Bonds | | | |
| 2001A5 2006 | \$ 120,000 | 88,128 | 208,128 |
| 2007 | 120,000 | 82,620 | 202,620 |
| 2008 | 120,000 | 77,112 | 197,112 |
| 2009 | 120,000 | 71,604 | 191,604 |
| 2010 | 120,000 | 66,096 | 186,096 |
| 2011-2015 | 600,000 | 247,860 | 847,860 |
| 2016-2020 | 600,000 | 110,160 | 710,160 |
| 2021-2022 | <u>120,000</u> | <u>5,508</u> | <u>125,508</u> |
| Total Series 2001A5 Bonds | <u>\$ 1,920,000</u> | <u>749,088</u> | <u>2,669,088</u> |
| Auxiliary Facilities Revenue Bonds | | | |
| 1997 2006 | \$ 66,772 | 17,205 | 83,977 |
| 2007 | 70,475 | 13,503 | 83,978 |
| 2008 | 74,383 | 9,595 | 83,978 |
| 2009 | 78,507 | 5,471 | 83,978 |
| 2010 | <u>40,871</u> | <u>1,118</u> | <u>41,989</u> |
| Total Series 1997 Bonds | <u>\$ 331,008</u> | <u>46,892</u> | <u>377,900</u> |
| Higher Education Facilities Revenue Bonds | | | |
| 2002B5 2006 | \$ 365,000 | 182,055 | 547,055 |
| 2007 | 385,000 | 165,338 | 550,338 |
| 2008 | 400,000 | 147,705 | 547,705 |
| 2009 | 420,000 | 129,385 | 549,385 |
| 2010 | 440,000 | 110,149 | 550,149 |
| 2011-2015 | <u>1,965,000</u> | <u>229,916</u> | <u>2,194,916</u> |
| Total Series 2002B5 | <u>\$ 3,975,000</u> | <u>964,548</u> | <u>4,939,548</u> |
| Higher Education Facilities Revenue Bonds | | | |
| 2005A3 2006 | \$ 205,000 | 106,899 | 311,899 |
| 2007 | 215,000 | 95,030 | 310,030 |
| 2008 | 220,000 | 87,720 | 307,720 |
| 2009 | 230,000 | 80,240 | 310,240 |
| 2010 | 235,000 | 72,420 | 307,420 |
| 2011-2015 | 1,305,000 | 236,470 | 1,541,470 |
| 2016-2020 | <u>590,000</u> | <u>30,260</u> | <u>620,260</u> |
| Total Series 2005A3 | <u>\$ 3,000,000</u> | <u>709,039</u> | <u>3,709,039</u> |

On January 29, 2004, Winthrop University issued \$5,500,000 in General Obligation Bonds Series 2004A1 with an average interest rate of 3.65 percent. The proceeds were used to construct an athletic track, renovate campus facilities, uplift an existing building and demolish a building for the site of a future building. As of June 30, 2005, the University has unamortized premium of \$38,096. This premium will be amortized over the life of this bond.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

On March 15, 2005, Winthrop University issued \$3,000,000 in Higher Education Facilities Revenue Bonds 2005 with an average interest rate of 3.40 percent. The proceeds were used to renovate and uplift several campus housing facilities.

Bonds Payable - Non Governmental Discretely Presented Component Unit

Winthrop University Real Estate Foundation, Inc.

Bonds payable consists of the following at December 31, 2004:

South Carolina Jobs-Economic Development
Authority variable rate demand Economic
Development Revenue Bonds. Issued
July 25, 2002 with a variable interest rate
currently at 3.40%.

| | | |
|-----------------|----|-------------------|
| Series 2002 - A | \$ | 18,730,000 |
| Series 2002 - B | | <u>-</u> |
| | \$ | <u>18,730,000</u> |

On July 25, 2002, WUREF, LLC entered into an agreement to issue two series of bonds to be utilized for the construction of The Courtyard at Winthrop. The proceeds of the bond issuances paid for construction of the building, a bulk-purchase of furniture and fixtures for the facility, and for allocations to specified bond reserve accounts. These bond reserve accounts were used to provide for capitalized interest, to pay for bond issuance costs, to provide for the setup of a bond sinking fund, and other related reserves. The Series A issuance of \$18,875,000 has a 30 year life with a maturity date of July 1, 2033, while Series B of \$100,000 has a maturity date of July 1, 2004. The Series B issuance note was paid in July 2004.

Maturities on the bonds payable are scheduled as follows for years ending December 31,:

| | | |
|------------|----|-------------------|
| 2005 | \$ | 260,000 |
| 2006 | | 280,000 |
| 2007 | | 295,000 |
| 2008 | | 310,000 |
| 2009 | | 330,000 |
| Thereafter | | <u>17,255,000</u> |
| | \$ | <u>18,730,000</u> |

In addition, WUREF LLC also entered into a \$16,400,000 interest rate swap agreement at the issuance of the bonds to manage exposure to fluctuations in interest rates. Under the swap agreement, WUREF LLC has limited its risk by effectively fixing the interest rate on the bonds at 3.94%.

Certain bond issuance costs, including underwriter's fees and attorney fees have been classified as an other asset and are being amortized over the life of the bonds to its final scheduled maturity date. Amortization expense for the bond closing costs was \$16,303 for the period ended December 31, 2004.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

Notes Payable

Notes payable consisted of the following at June 30, 2005:

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance</u> |
|-------------------------------|--------------------------|--------------------------|----------------------------|
| State of South Carolina | | | |
| Note (Athletic Facilities) | | | |
| Series 1981 | 6.0% | 06/30/11 | \$ 596,478 |
| Note (Energy Office) 4-204-04 | 1.0% | 12/01/12 | 485,081 |
| Note (Energy Office) 4-204-05 | 1.0% | 12/01/12 | <u>485,081</u> |
| Total Notes Payable | | | <u><u>\$ 1,566,640</u></u> |

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

A special student fee and a special admissions fee on all paid admissions to the athletic facilities are restricted to the payment of principal and interest on the athletic facilities note and are recorded in student tuition and fees revenues and other additions in the retirement of indebtedness plant funds subgroup. The bank notes will be repaid from available unrestricted sources and debt service payments will be reported as unrestricted current fund expenditures.

On December 1, 2004, Winthrop University borrowed \$970,162 from the State Energy Office with an average interest rate of 1.00 percent. The proceeds were used to renovate facilities to enhance Energy Performance.

The notes are payable in semiannual and annual installments, respectively, plus interest. Amounts including interest required to complete payment of the note obligations as of June 30, 2005, are as follows:

| <u>Year Ending June 30</u> | <u>Principle</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------------|-----------------------|-------------------------|
| 2006 | \$ 205,988 | 44,578 | 250,566 |
| 2007 | 212,397 | 38,169 | 250,566 |
| 2008 | 219,134 | 31,432 | 250,566 |
| 2009 | 226,220 | 24,346 | 250,566 |
| 2010 | 233,672 | 16,893 | 250,565 |
| 2011-2015 | <u>469,229</u> | <u>12,640</u> | <u>481,869</u> |
| | <u><u>\$ 1,566,640</u></u> | <u><u>168,058</u></u> | <u><u>1,734,698</u></u> |

Master Lease Program Notes Payable

In prior years, the University made borrowings from a bank under the State Treasurer's Office's Master Lease Program. At June 30, 2005, the University had bank notes payable outstanding as follows:

| | <u>Interest Rates</u> | <u>Maturity Dates</u> | <u>Balance</u> |
|------------------------------|---------------------------|---------------------------|----------------------------|
| Note Dated June 1, 1998 | 5.11% | 06/01/05 | \$ - |
| Note Dated June 1, 1998 | 5.11% | 06/01/05 | - |
| Note Dated December 13, 2000 | 4.79% | 04/01/06 | 18,810 |
| Note Dated June 16, 2004 | 3.56% | 06/16/11 | <u>4,117,503</u> |
| Total | | | <u><u>\$ 4,136,313</u></u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 7 - LONG-TERM DEBT, Continued

Notes Payable, Continued

The University financed capital acquisitions through a borrowing from the State Treasurer's Master Lease Program. The University originally borrowed \$109,103 (net carrying value of \$42,253) to purchase of 5 campus police cars. The outstanding balance at June 30, 2005 is \$18,810. The note is collateralized by the police cars. The note requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

Proceeds from the original master lease notes of \$899,750 and \$709,500, which were paid off during the year, were used to acquire campus-wide telephone equipment and voice and data cabling equipment, respectively.

On June 16, 2004, Winthrop University borrowed \$4,500,000 from a financial institution with an average interest rate of 3.56 percent. The proceeds were used to renovate facilities to enhance Energy Performance.

The notes are payable in annual installments plus interest. In June 2011, there is a balloon payment due of \$1,990,711. Amounts, including those required to complete payment of the bank note obligations as of June 30, 2005 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|-----------------|------------------|
| 2006 | \$ 414,930 | 147,374 | 562,304 |
| 2007 | 410,228 | 132,537 | 542,765 |
| 2008 | 424,838 | 117,927 | 542,765 |
| 2009 | 439,968 | 102,796 | 542,764 |
| 2010 | 455,638 | 87,127 | 542,765 |
| 2011-2015 | <u>1,990,711</u> | <u>70,899</u> | <u>2,061,610</u> |
| Total Obligations | <u>\$ 4,136,313</u> | <u>658,660</u> | <u>4,794,973</u> |

NOTE 8 - LEASE OBLIGATIONS

Future commitments for capital leases and operating leases having no cancelable terms in excess of one year as of June 30, 2005 were as follows:

| <u>Year Ended June 30</u> | <u>Capital Leases/ Equipment</u> | <u>Operating Leases/ Equipment</u> |
|---------------------------------------|--|--|
| 2006 | \$ - | 29,797 |
| 2007 | - | 13,094 |
| 2008 | - | 5,052 |
| 2009 | - | 3,390 |
| 2010 | - | - |
| Thereafter | <u>-</u> | <u>-</u> |
| Total Lease Payments | - | 51,333 |
| Less: Interest | <u>-</u> | <u>-</u> |
| Total Present Value of Lease Payments | <u>\$ -</u> | <u>51,333</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 8 - LEASE OBLIGATIONS, Continued

Capital Leases

As of June 30, 2005, the University had no capital leases.

Operating Leases

The University has various operating leases with external parties which include copier equipment, four vehicles and one parcel of land to provide overflow parking for students. These leases are non-cancelable operating leases which provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total contingent rental payments for copier equipment on a cost per copy basis were \$262,104 for fiscal year 2005. For the year ending June 30, the University's lease expense for the vehicles and parcel of land were \$36,572 and \$26,316, respectively.

NOTE 9 - PENSION PLANS

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

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 for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.95 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2005, 2004 and 2003 were \$1,466,115, \$1,397,742 and \$1,392,285, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$29,128 in the current fiscal year at the rate of .15 percent of compensation.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 9 - PENSION PLANS, Continued

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. 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.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 13.95 percent which, as for the SCRS, included the 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2005, 2004 and 2003 were \$51,681, \$47,812 and \$43,667, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$1,004 and accidental death insurance contributions of \$1,004 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2005.

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 \$955,401 (excluding the surcharge) from University as employer and \$759,260 from its employees as plan members.

Deferred Compensation Plans

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

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 9 - PENSION PLANS, Continued

Teacher and Employee Retention Incentive

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

NOTE 10 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

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

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$2,632,654 for the year ended June 30, 2005. As discussed in Note 9, the University paid \$1,161,369 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 11 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of \$19,361,242 at June 30, 2005 of which \$19,154,724 was attributable to capital projects and the remaining \$206,518 was attributable to repairs and maintenance. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of State facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$610,889 of authorized state capital improvement bond proceeds available to draw at June 30, 2005.

NOTE 12 - RELATED PARTIES

The Alumni Association of Winthrop University is a separately chartered legal entity whose activities are primarily to provide financial assistance and other support to the University and its educational program. The Alumni Association is an eleemosynary corporation. The Association exists to promote the growth, progress and general welfare of Winthrop University and to foster among its former students a sentiment of regard for one another and a continuing attachment to their Alma Mater. Financial statements for this entity is audited by independent auditors and retained by them.

NOTE 13 - DONOR RESTRICTED ENDOWMENTS

At June 30, 2005 the University held \$485,729 in permanent endowed and \$238,733 in quasi endowed funds. Net unrealized appreciation at June 30, 2005 was \$216,576. This amount is included in the restricted expendable scholarships and fellowships amount in the Statements of Net Assets. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the endowment funds.

The income earned on endowments is spent for the purposes for which the endowments were established. At June 30, 2005, the income available to be spent is \$113,133, of which \$72,015 is restricted to specific purposes.

NOTE 14 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 14 - RISK MANAGEMENT, Continued

The State of South Carolina 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 the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

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

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE 15 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2005 are summarized as follows:

| | |
|------------------------------------|----------------------|
| Instruction | \$ 27,681,971 |
| Research | 395,276 |
| Public Service | 3,639,273 |
| Academic Support | 7,163,042 |
| Student Services | 8,827,092 |
| Institutional Support | 6,519,112 |
| Operation and Maintenance of Plant | 12,199,781 |
| Scholarships & Fellowships | 4,811,850 |
| Auxiliary Enterprises | 7,714,975 |
| Depreciation | 3,612,153 |
| Total Operating Expenses | <u>\$ 82,564,525</u> |

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 16 - COMPONENT UNITS

The Foundation and WUREF, Inc. maintain their accounts in accordance with the principals and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by the actions of the Foundation or WUREF, Inc. and/or by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions”.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the Foundation or WUREF, Inc. Generally, the donors of these assets permit the Foundation or WUREF, Inc. to use all or part of the income earned on any related investments for general or specific purposes.

Split-interest trusts – Split-interest trusts consist of contributions to a trust controlled by a trustee (often the Foundation) which requires the trustee to invest the gift and make periodic payments to designated beneficiaries during their lives. Upon the death of the beneficiaries, the remaining trust balance goes to the Foundation subject to any use restrictions in the trust agreement with the donor.

Agency fund – The other classification used in the accompanying statement of financial position for the Foundation is agency fund which is a fund held by the Foundation as custodian for The Winthrop University Alumni Association. The receipts, earnings and expenditures related to the agency fund are not included in the Foundation’s statement of activities.

Contributions are recorded as revenue when unconditional promises (pledges) to give are received. Pledges to give due in the next year are recorded at their net realizable value. Pledges to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Amortization of discounts is reported as additional contribution revenue according to donor-imposed restrictions, if any.

The Winthrop University Foundation

The Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of the University. The Foundation’s activities are governed by its Board of Directors.

The University recorded Non Governmental gifts receipts of \$1,069,037 from the Foundation in nonoperating revenues for the fiscal year ending June 30, 2005. These funds were used to support University programs such as scholarships and fellowships. The Foundation reimburses the University for any purchases made by the University on behalf of the Foundation.

Component unit receivables as of June 30, 2005 are \$53,605 due from the Foundation.

WINTHROP UNIVERSITY
Notes to the Financial Statements, Continued
June 30, 2005

NOTE 16 - COMPONENT UNITS, Continued

Purpose of Restricted Net Assets

All temporarily restricted net assets are available for use by Winthrop University faculty or for scholarships to Winthrop students who meet the established criteria. Net assets released from restrictions during 2004 were \$1,796,986 released by incurring expenses satisfying the restricted purpose of the donors for scholarships, grants and faculty support at Winthrop University.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

| | | |
|--|-----------------------------|--|
| Winthrop University Scholarships and Grants | \$ 18,440,685 | |
| The Alumni Association of Winthrop University | <u>110,000</u> | |
| | 18,550,685 | |
| Endowments Requiring Income to be Added to Original Gifts Until the Funds Values Reach Specified Amounts | 384,101 | |
| Cash Surrender Value of Life Insurance Policies That Will Provide Proceeds Upon the Deaths of the Insured for Endowments | 68,826 | |
| Estimated Current Value of Trusts Which Upon the Death of the Beneficiaries Will Provide Endowments | <u>2,286,838</u> | |
| | <u><u>\$ 21,290,450</u></u> | |

Winthrop University Real Estate Foundation, Inc.

In January 2004, WUREF Development, LLC, a separately wholly owned organization of WUREF, Inc., spent approximately \$19 million to construct a 406 bed resident student housing facility. Winthrop University has entered into an agreement with WUREF to provide management services for assigning students to rooms and collecting required fees. For the period July 1, 2004 thru June 30, 2005, the fee for management services amounted to approximately \$95,303. WUREF Development, LLC reimburses the University for any purchases made by the University on behalf of the Foundation.

Component unit receivables as of June 30, 2005 are \$526,799 due from WUREF, Inc.

NOTE 17 – SUBSEQUENT EVENTS

On August 25, 2005, Winthrop University issued \$17,000,000 in General Obligation State Institution Bonds Series 2005 B3 with an average interest rate of 4.38 percent. The proceeds will be used to demolish an existing building for the site of a newly constructed health, physical education and wellness center.

OTHER FINANCIAL INFORMATION

WINTHROP UNIVERSITY
Schedule of Information on Business-Type Activities
Required for the Government-Wide
Statement of Activities in the State CAFR
For the Year Ended June 30, 2005

| | <u>Year Ended June 30,</u> | |
|--------------------------------------|-----------------------------|--------------------------|
| | <u>2005</u> | <u>2004</u> |
| Charges for Services | \$ 60,932,519 | 55,403,604 |
| Operating Grants and Contributions | 2,625,407 | 2,597,153 |
| Less Expenses | <u>(83,691,808)</u> | <u>(78,148,313)</u> |
| Net Program Revenue (Expense) | <u>(20,133,882)</u> | <u>(20,147,556)</u> |
| TRANSFERS | | |
| State Appropriations | 21,158,536 | 20,350,715 |
| Capital Improvement Bond Transfer In | <u>4,899,848</u> | <u>1,991,196</u> |
| Total Transfers | <u>26,058,384</u> | <u>22,341,911</u> |
| Decrease in Net Assets | 5,924,502 | 2,194,355 |
| Net Assets - Beginning of Year | <u>57,875,909</u> | <u>55,681,554</u> |
| Net Assets - End of Year | <u><u>\$ 63,800,411</u></u> | <u><u>57,875,909</u></u> |

WINTHROP UNIVERSITY
 Schedule Reconciling State Appropriation Per the Financial Statements
 To State Appropriation Recorded in State Accounting Records
 For the Year Ended June 30, 2005

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 nonoperating revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5L of Part IA of the 2004-2005 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, 2005:

Non-Capital Appropriations

| | |
|---|---------------|
| Non-Capital Appropriations per 2004-2005 Appropriations Act | \$ 19,289,652 |
|---|---------------|

State Budget and Control Board Allocations:

| | |
|--|---------|
| State Budget and Control Board Approved Mid Year Appropriation Increase | 674,177 |
|--|---------|

| | |
|--------------------------|---------|
| State Technology Program | 866,211 |
|--------------------------|---------|

| | |
|--|--------|
| State Academic Endowment Incentive Match | 47,585 |
|--|--------|

| | |
|--|------------|
| Revised Non-Capital Appropriations - Legal Basis | 20,877,625 |
|--|------------|

| | |
|---|---------|
| Accrued Funding for Net Payroll Adjustments | 280,911 |
|---|---------|

| | |
|--|----------------------|
| Total Non-Capital Appropriations Revenue - Accrual Basis | <u>\$ 21,158,536</u> |
|--|----------------------|

Capital Appropriations

| | |
|---|--------------|
| Capital Improvement Bond Proceeds Drawn 2004-2005 | \$ 4,998,069 |
|---|--------------|

| | |
|---|---------|
| Plus Capital Improvement Bond Proceeds Receivable Expended 2004-2005 Not Drawn | 560,781 |
|---|---------|

| | |
|---|-----------|
| Less Capital Improvement Bonds Drawn in 2004-2005 Expended 2003-2004 | (659,002) |
|---|-----------|

| | |
|--|---------------------|
| Total Capital Appropriations Revenue - Accrual Basis | <u>\$ 4,899,848</u> |
|--|---------------------|

SINGLE AUDIT SECTION

WINTHROP UNIVERSITY
Schedule of Expenditures of Federal Awards
June 30, 2005

| <u>FEDERAL GRANTOR</u> | <u>CFDA NUMBER</u> | <u>GRANT OR CONTRACT NUMBER</u> | <u>June 30, 2005</u> |
|---|------------------------|---|----------------------|
| Pass-Through Entity | | | |
| Program Title | | | |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Office of Student Financial Assistance | | | |
| SEOG | 84.007 | P007A043816 | \$ 146,001 |
| Federal Work-Study | 84.033 | P033A043816 | 208,038 |
| Federal Perkins Loan | 84.038 | P038A033816 | 83,789 |
| Pell Grants - 2003 | 84.063 | P063P020379 | (180) |
| Pell Grants - 2004 | 84.063 | P063P030379 | 24,758 |
| Pell Grants - 2005 | 84.063 | P063P040379 | 4,377,141 |
| Federal Direct Loan | 84.268 | | 20,198,000 |
| | | | <u>25,037,547</u> |
| Pass-Through the South Carolina Commission on Higher Education | | | |
| Eisenhower Professional Development | | | |
| Math and Science Coach | 84.281 | | 9 |
| Improving Teacher Quality | | | |
| Solving Math Problems | 84.367 | | 53,676 |
| Leadership Academy | 84.367 | | 99,630 |
| Middle Level Program | 84.367 | 05-TQ302-01 | 7,699 |
| | | | <u>161,014</u> |
| Pass-Through the University of South Carolina | | | |
| Teacher Quality Enhancement | | | |
| Clinical Experience Partnerships | 84.336 | P336B990061 | 24,297 |
| Diverse Pathways in Teacher Preparation | 84.336 | P336B0400148 | 13,427 |
| | | | <u>37,724</u> |
| Pass-Through South Carolina Department of Education | | | |
| Special Education Grants to States | | | |
| Personnel Development Collaboration | 84.027 | 05-CT-309 | 16,548 |
| Special Education State Improvement Program | | | |
| Special Improvement Grant-S Okey | 84.323A | 04-CT-309 | 707 |
| Special Improvement Grant-G Alderman | 84.323A | 05-CT-309 | 12,379 |
| Transition to Teaching | 84.350 | 05-FC-309-01 | 40,993 |
| Corporation for National and Community Service | | | |
| AmeriCorps - FY 2004 | 94.006 | 04FT309 | 4,790 |
| AmeriCorps - FY 2005 | 94.006 | 05FT309 | 193,704 |
| | | | <u>269,121</u> |
| Other Programs | | | |
| National Writing Project | | | |
| Winthrop Writing Project | 84.928 | 92SC04/92SC05 | 41,237 |
| | | | <u>41,237</u> |
| Total U.S. Department of Education | | | \$ 25,546,643 |

WINTHROP UNIVERSITY
Schedule of Expenditures of Federal Awards, Continued
June 30, 2005

| <u>FEDERAL GRANTOR</u> | <u>CFDA NUMBER</u> | <u>GRANT OR CONTRACT NUMBER</u> | <u>June 30, 2005</u> |
|---|------------------------|---|----------------------|
| Pass-Through Entity | | | |
| Program Title | | | |
| U.S. DEPARTMENT OF INTERIOR | | | |
| Pass-Through the Fish and Wildlife Associates, Inc. | | | |
| Tribal Landowner Incentive Program | | | |
| Botanical Surveys and Research on Catawba Indian Nation Lands | 15.638 | | \$ 3,469 |
| Total U.S. Department of Interior | | | <u>3,469</u> |
| NATIONAL SCIENCE FOUNDATION | | | |
| Pass-Through Wake Forest University | | | |
| Mathematical and Physical Sciences Spectrometer | 47.049 | CHE-034645 | <u>12,745</u> |
| Total National Science Foundation | | | <u>12,745</u> |
| SMALL BUSINESS ADMINISTRATION | | | |
| Pass-Through the University of South Carolina | | | |
| Small Business Development Center - FY 2004 | 59.037 | 4603001-0043 | 62,331 |
| Small Business Development Center - FY 2005 | 59.037 | 5603001-0043 | <u>152,186</u> |
| Total Small Business Administration | | | <u>214,517</u> |
| NATIONAL INSTITUTE OF HEALTH | | | |
| Pass-Through the University of South Carolina | | | |
| Cancer Research Manpower | | | |
| INBRE-Video Conferencing | 93.398 | 1P20RR16461 | 28,772 |
| Research Infrastructure | | | |
| BRIN/Network Seminar Program | 93.389 | | 53 |
| EPSCOR/IDEA Program | 93.389 | | <u>2,000</u> |
| Total National Institute of Health | | | <u>30,825</u> |
| NATIONAL ENDOWMENT FOR THE HUMANITIES | | | |
| Pass-Through the SC Humanities Council | | | |
| Promotion of the Humanities | | | |
| Archival Shelving for Preservation of Humanities Collections | 45.149 | PA5089805 | 4,746 |
| Promotion of the Humanities | | | |
| Lives of Our Times | 45.129 | 4-1041-3 | <u>600</u> |
| Total National Endowment for the Humanities | | | <u>\$ 5,346</u> |

WINTHROP UNIVERSITY
Schedule of Expenditures of Federal Awards, Continued
June 30, 2005

| <u>FEDERAL GRANTOR</u> | <u>CFDA NUMBER</u> | <u>GRANT OR CONTRACT NUMBER</u> | <u>June 30, 2005</u> |
|--|------------------------|---|----------------------|
| Pass-Through Entity | | | |
| Program Title | | | |
| NATIONAL ENDOWMENT FOR THE ARTS | | | |
| Promotion of the Arts | | | |
| ABC Outreach Program | 45.024 | 03-5100-8049 | \$ 24,930 |
| Total National Endowment for the Arts | | | <u>24,930</u> |
| DEPARTMENT OF TRANSPORTATION | | | |
| Pass-Through the SC Department of Public Safety | | | |
| State and Community Highway Safety Program | | | |
| Law Enforcement Network | 20.600 | 2JC04016 | 7,069 |
| Highway Safety | 20.600 | 2JC05016 | 1,943 |
| Total Department of Transportation | | | <u>9,012</u> |
| NATIONAL ARCHIVES AND RECORDS ADMINISTRATION | | | |
| Pass-Through the SC Historical Records and Archives Board | | | |
| National Historical Records and Publications Grant | | | |
| MAP/AAM/IMLS Grant | 89.003 | | 105 |
| Total National Archives and Records Administration | | | <u>105</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 25,847,592</u> |

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133

Winthrop University
Rock Hill, South Carolina

Compliance

We have audited the compliance of Winthrop University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Winthrop University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Winthrop University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Winthrop University's compliance with those requirements.

In our opinion the University complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures disclosed no instances of noncompliance with these requirements which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Winthrop University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Winthrop University as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Office of the State Auditor, State of South Carolina, the University's Board of Trustees and management, applicable federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink that reads "C. Brantley & Co. PA". The signature is written in a cursive style.

September 1, 2005

Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements Performed
In Accordance With Government Auditing Standards

Winthrop University
Rock Hill, South Carolina

We have audited the general purpose financial statements of Winthrop University (the University) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted by the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 1, 2005.

Compliance And Other Matters

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

This report is intended solely for the information of the Office of the State Auditor, State of South Carolina, the University's Board of Trustees and management, applicable federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.



September 1, 2005

WINTHROP UNIVERSITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Winthrop University. The reporting entity is defined in Note 1 of the University's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2(b) of the University's financial statements.

3. LOAN PROGRAMS

The University has students who have approved loans which were received by those students during the current year. The University is not the lender, it only processes them for the lender the student chooses. The totals and types of loans received for the current fiscal year are:

| | |
|----------------------|----------------------|
| Federal Direct Loans | <u>\$ 20,198,000</u> |
|----------------------|----------------------|

WINTHROP UNIVERSITY
Summary Schedule of Prior Audit Findings
June 30, 2005

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

RC 04-01

Return to Title IV

Condition: Return to Title IV calculations for unofficial withdrawals were not made in a timely manner; official withdrawals were calculated timely. Financial Aid did calculate and return funds after the 30 day time frame.

Criteria: Internal controls should be in place that provides reasonable assurance that calculations of return to Title IV refunds are completed in a timely manner. [34 CFR 668.22]

Effect: Title IV refunds were not remitted to the proper recipients.

Recommendation: Procedures should be implemented requiring the timely calculation of return to Title IV funds.



FY 2004 Findings and Questioned Costs Relating to Federal Awards:

RC 04-01

Return to Title IV

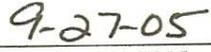
- Condition:** Return to Title IV calculations for unofficial withdrawals were not made in a timely manner; official withdrawals were calculated timely. Financial Aid did calculate and return funds after the 30 day time frame.
- Criteria:** Internal controls should be in place that provides reasonable assurance that calculations of return to Title IV refunds are completed in a timely manner. [34 CFR 668.22]
- Effect:** Title IV refunds were not remitted to the proper recipients.
- Recommendation:** Procedures should be implemented requiring the timely calculation of return to Title IV funds.

FY 2005 Corrective Action Taken:

To enhance the University's effort in determining last date of academic activity, the University implemented the following procedures:

1. The Vice President for Academic Affairs sent a memo, which reviewed federal regulations regarding Return to Title IV Programs, to all faculty members during the week preceding the 60% point of the term. He requested that faculty report any student who had stopped attending prior to that date. (November 1, 2004 for Fall 2004 and March 22 for Spring 2005) This listing was sent to the Office of Records and Registration which attempted to contact each student to determine enrollment status. Information was forwarded to the Office of Financial Aid for those students receiving Title IV aid. Appropriate adjustments to aid were made at that time, if necessary.
2. Once all grades were posted for a term, a list of students who were Title IV aid recipients and who received all N's and/or F's was provided to the Office of Financial Aid by the Office of Records and Registration. The list was sorted by faculty member with a listing of students and classes taught by that faculty member. The Vice President for Academic Affairs sent a memo to each faculty member with the list of students, asking the faculty member to note the last date of attendance or academic activity for the students on the list. Information was forwarded to the Office of Registration and Records and shared with the Office of Financial Aid. Aid was adjusted when necessary.
3. For those students with all N's and F's for whom information was not provided, the Office of Financial Aid assumed a withdrawal date of the mid-point of the term and processed returns to federal programs accordingly.


Betty C. Whalen, Director of Financial Aid


September 27, 2005

Winthrop University
Schedule of Findings and Questioned Costs
June 30, 2005

Summary of Auditors' Results:

GAGAS

An unqualified opinion was issued on Winthrop University's financial statements dated September 1, 2005. No instances of material noncompliance were disclosed by the audit of their financial statements.

A-133

An unqualified opinion was also issued on compliance of major programs at Winthrop University dated September 1, 2005. Our audit disclosed no findings that are required to be reported under OMB Circular A-133.

The major program at Winthrop University is the Student Financial Aid Cluster from the U.S. Department of Education. Type A or major programs are defined as those that expended \$300,000 or 3% of total Federal Awards expended at the University. Winthrop University's total federal awards expended for the year ended June 30, 2005 were between \$10 million and \$100 million.

Winthrop University is considered to be a low risk auditee by the criteria listed in OMB Circular A-133.

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

There were no findings and questioned costs relating to Federal awards.