South Carolina State University

Audit Results

Fiscal Year Ended June 30, 2013

Covers the 2013 Audit Results through February 5, 2014

BDO

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February 5, 2014

Audit Committee of the Board of Trustees
South Carolina State University

Dear Members of the Audit Committee:

We are pleased to present the results of our financial statement audits of South Carolina State University (the "University") for the year ended June 30, 2013. This report to the Audit Committee of the Board of Trustees summarizes our audit, the scope of our engagement, and various analyses and observations related to the University's financial position and results of operations. We would like to highlight that we received the full cooperation of management throughout the audit process, and we appreciate all their efforts in providing us the requested supporting documentation timely.

As you are aware, professional standards require us to communicate with you regarding matters related to the financial statement audit and federal compliance (A-133) audits that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. The accompanying results document various matters with respect to the completion phase of the annual financial statement audit, federal compliance audits, National Collegiate Athletic Association (NCAA) agreed-upon procedures engagement of the University, and annual financial statement audit of WSSB Radio Station, A Department of South Carolina State University, as of and for the year ended June 30, 2013, including our required communications. Should you desire further information or clarification concerning these matters in advance of our meeting, please feel free to give Stathis Poulos, Engagement Partner, a call at (919) 278-1925.

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance and, if appropriate, management of the University and is not intended and should not be used by anyone other than those specified parties.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Table of Contents

Client Service Team

Our engagement team executives for the June 30, 2013 engagements are listed in the organization table below. These team members have been selected due to their relevant industry expertise and historical knowledge of the University:

Engagement Member	Responsibility	Contact Number	E-Mail Address
Stathis Poulos	Engagement Partner	(919) 278-1925	spoulos@bdo.com
Michael Dannar	Quality Review Partner	(919) 278-1990	mdannar@bdo.com
Billy Hampton	Independent Partner	(919) 278-1919	bhampton@bdo.com
Brian Crossland	Senior Manager	(919) 278-1922	bcrossland@bdo.com
LaShaun King	Manager	(919) 278-1952	lking@bdo.com
Jessica Doss	Senior	(919) 278-1952	jdoss@bdo.com
Kaitlin Wilkes	Senior	(919) 278-1902	kwilkes@bdo.com
Megan Creed	Senior Associate	(919) 278-1904	mcreed@bdo.com

Engagement Status

The follow documents our status with respect to the audits of the annual financial statements and federal compliance of the University as of and for the year ended June 30, 2013:

Procedures	Status
Professional Services Provided	
• Express an opinion on the 2013 financial statements of the University	*University's Financial Statements:* With respect to the University's financial statements, we have issued an unmodified opinion on the University's financial statements, with an adverse opinion on the aggregate discretely presented component units. The adverse opinion on the discretely presented component units was directly attributable to the financial data of the South Carolina State University Advancement Foundation for the year ended June 30, 2013 not being readily available for inclusion with the University's financial statements. Additionally, due to changes in auditing standards from 2012 to 2013, the presentation of our audit report opinion was updated to match the new standards. For your information and reference, we have provided a comparison of the 2013 and 2012 financial statement audit opinions at ***Appendix A***.
• Express an opinion on the 2013 financial statements of WSSB Radio Station	*WSSB Radio Station's Financial Statements:* We have issued an unmodified opinion on WSSB Radio Station's 2013 financial statements.
• Report on compliance and on internal control over financial reporting based on an audit of the 2013 financial statements in accordance with *Government Auditing Standards* for the year ended June 30, 2013 and report on compliance for each major federal program; report on internal control over compliance; and report on the schedule of expenditures of federal awards required by OMB Circular A-133 for the year ended June 30, 2013	*A-133 Audit of the University:* Our OMB Circular A-133 audit procedures are currently ongoing. We will report to you the results of this audit upon completion.
• Report on the results of our agreed-upon procedures engagement over the University's compliance with the National Collegiate Athletics Association (the "NCAA") Bylaw 3.2.4.14 and the University's NCAA statement of revenues and expenses for the year ended June 30, 2013	*NCAA Agreed-Upon Procedures:* We have also issued our independent accountants' report on the 2013 NCAA agreed-upon procedures.

Engagement Status (continued)

Procedures	Status
Internal Control	
• Communicate to management and those charged with governance any significant deficiencies and material weaknesses identified during our procedures (if any) • Issue written communication to management of any deficiencies in internal control over financial reporting identified during our procedures	See ***Appendix B***, ***Appendix C***, and ***Appendix D*** for the management letter comments noted during our audit of the University's financial statements, our audit of WSSB Radio Station's financial statements and our NCAA agreed-upon procedures, respectively.
Other Services	
• Ensure that those charged with governance are kept appropriately informed of the University's financial reporting matters and comply with professional standards as to communications with those charged with governance	The results of our audit of the University's financial statements, our audit of WSSB Radio Station's financial statements and our NCAA agreed-upon procedures are being reported in the following pages. We will report to you the results of the A-133 audit upon completion.

Critical Audit Areas

We have reviewed the accounting practices, which include policies, estimates and financial statement disclosures, that management at the University has identified as critical, and concur with management's assessment. These critical areas included the following:

Primary areas of focus and considerations and findings	
Cash and cash equivalents	We sent independent bank confirmations, reviewed bank statements, and substantively tested bank accounts.
Accounts receivable and allowance (including student loan receivable)	We reviewed reconciliations of detailed account balances, agreed the subledger to the general ledger, vouched subsequent payments for a sample of student account balances, reviewed the University's receivables aging, and determined whether the allowance for doubtful accounts methodology and balance appeared reasonable.
Grants receivable	We obtained the grants receivable rollforward and vouched subsequent payments for a sample of account balances. Additionally, we determined whether grant amounts were properly classified as due from a federal, state or private entity.
Capital assets	We reviewed the current year rollforward of capital assets and tested all material current year activity by vouching it to supporting invoices and payments. We also tested a sample of current year capital asset disposals, including recalculating the related loss on disposal. Additionally, we performed depreciation reasonableness tests (including consideration of useful lives estimates made by management).
Accounts payable and accrued expenses (including accrued payroll)	We performed the search for unrecorded liabilities and supported material accrual balances within the University's financial statements.
Deferred and unearned student revenue	We tested the rollforward activity of deferred revenue by selecting a sample of items and vouched these items to the related cash receipts as well as when the selected amounts were earned by the University. Additionally, we tested for proper cut-off of deferred revenue at year end.

IG Review 0278

Critical Audit Areas (continued)

Primary areas of focus and considerations and findings	
Notes and bonds payable	We confirmed the University's debt balances as of June 30, 2013. We performed an interest reasonableness test and recalculated compliance with the applicable debt covenants.
Net assets	We obtained the net asset rollforward prepared by the University and selected a sample of items to test to supporting documentation. Additionally, we obtained support for balances in net assets to determine that restrictions were properly observed and classified within the financial statements.
Revenues and expenses	We selected a sample of revenue and expense items for detailed/substantive testing to supporting documentation (including third-party evidence). Additionally, we performed various analytical and recalculation procedures for certain revenue and expense balances.
A-133 (Major programs)	We performed testing of internal control over compliance and compliance with respect to the University's major federal programs. During our planning phase of the audit in May 2013 the following 3 federal programs were anticipated to be major programs for the 2013 A-133 Audit: 1) Student Financial Assistance Cluster, 2) Title III Higher Education Institutional Aid and 3) Research & Development Cluster. However, upon receipt of the 2013 schedule of expenditures of federal awards in August 2013, we noted that the following federal programs were also required to be audited as major programs as part of the 2013 A-133 audit due to their size: 1) Payments to 1890 Land-Grant Colleges and 2) Environment Remediation and Waste Processing and Disposal. This required 5 federal programs to be audited as major programs as part of the 2013 A-133 audit.
Overall presentation and disclosure	Reviewed the 2013 financial statements for the University and WSSB Radio Station for appropriate presentation and disclosure in accordance with accounting principles generally accepted in the United States of America.
NCAA agreed-upon procedures	We executed the agreed-upon procedures specified within the National Collegiate Athletic Association's Agreed-Upon Procedures guide dated August 15, 2013.

Required Communications
Internal Control Over Financial Reporting

We are required to communicate, in writing, to the Audit Committee all material weaknesses and significant deficiencies that have been identified in the University's internal controls over financial reporting. The definitions of material weakness, significant deficiency and control deficiency are as follows:

Category	Definition
Material Weakness	A deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented or detected on a timely basis.
Significant Deficiency	A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the University's financial reporting.
Control Deficiency	A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Refer to ***Appendix B***, ***Appendix C***, and ***Appendix D*** for the management letter comments we noted during our audit of the University's financial statements, our audit of the WSSB Radio Station's financial statement, and our NCAA agreed-upon procedures, respectively.

Required Communications

Professional standards require the auditor to communicate certain matters to those charged with governance so that we may assist the University's Audit Committee in overseeing management's financial reporting and disclosure. Below we summarize these communications as they apply to the University:

Requirement	Comments
Auditors' responsibilities under generally accepted auditing standards	
The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable in *Government Auditing Standards*, issued by the Comptroller General of the United States, to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.	We issued audit opinions on the 2013 financial statements of the University and WSSB Radio Station. We have also issued our independent accountants' report on the 2013 NCAA agreed-upon procedures.
Critical accounting policies and practices	
We communicate all critical accounting policies and practices (including footnote disclosures) used by the University during the preparation of the financial statements.	The University's and WSSB Radio Station's critical accounting policies and practices are described in Note 1 of the respective financial statements.
Auditor's judgment about the quality of the University's accounting policies, estimates and financial statement disclosures	
We communicate our judgments about the quality, not just the acceptability, of the accounting policies as applied in the University's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.	The accounting principles adopted by management are appropriate for the University as well as WSSB Radio Station, and have been consistently applied.

Requirement	Comments
Adoption of a change in accounting principle We communicate to the Audit Committee of the Board of Trustees the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.	No material adoptions or changes in accounting principles were noted during the current year.
Material adjustments brought to the attention of management by the auditor The Audit Committee of the Board of Trustees is informed about adjustments arising from the audit that could in our judgment either individually or in the aggregate, have a significant effect on the University's financial statements.	Through the date of this presentation, there was one recorded audit adjustment noted during our 2013 audit procedures. Refer to the *Audit Adjustments* section of this document for a detail of the adjustment recorded.
Uncorrected differences, other than those the auditor believes to be trivial The Audit Committee of the Board of Trustees is informed about unrecorded differences accumulated by the auditors during the current year audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.	Through the date of this presentation, there was two unrecorded audit adjustments noted during our 2013 audit procedures. Refer to the *Audit Adjustments* section of this document for a detail of the adjustment recorded.
Significant Deficiencies and Material Weaknesses in Internal Control	No material weaknesses were identified during our audit procedures. See **Appendix A** for draft management letter comments.
Fraud and Illegal Acts We report to the Audit and Audit Committee of the Board of Trustees fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the consolidated financial statements.	No such matters came to our attention or were brought to our attention by management.

Required Communications (continued)

Requirement	Comments
Disagreements with management	None.
Consultations with other accountants	None identified.
Major issues discussed with management prior to retention	None identified.
Significant difficulties encountered during the audit	None identified.
Representations requested from management	Management representation letter has been provided for the financial statement audit.
Material alternative accounting treatments discussed with management	There were no such discussions.
Independence We communicate, at least annually, to the Audit Committee of the Board of Trustees of the University any independence concerns or issues.	We are not aware of any relationships between BDO and the University that may reasonably be thought to bear on our independence.
AICPA Ethics Ruling Regarding Third-Party Service Providers	No third-party service providers were utilized in the performance of our procedures.
Other issues arising from the audit the auditor considers significant and relevant to those charged with governance	There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

IG Review 0283

Audit Adjustments

The following table summarizes the audit adjustments identified by BDO during the 2013 audit of the University's financial statements:

South Carolina State University				
Ref. #	Description	Debit	Credit	P&L Impact
Recorded Audit Adjustments				
1	Services, supplies & other expenses	245,706	-	(245,706)
	Accounts payable & accrued expenses	-	245,706	-
	To properly record the tax liability and related expense associated with the University's food service administration for the year ended June 30, 2013. This adjustment was independently identified by both the audit engagement team during the audit as well as management as a post closing adjustment.			
Unrecorded Audit Adjustments				
1	Net position	604,000	-	-
	State appropriations	-	604,000	604,000
	To reverse state appropriations adjustments recorded in fiscal year 2013 that pertained to periods prior to July 1, 2012. The original entry was identified by management during its 2013 financial statement close process. As the amount was not material enough to warrant a restatement of prior period balances, the University recorded it as a current year adjustment. However, though the original amount was not material enough to warrant a restatement of prior period balance, the amount was greater than BDO's clearly trivial thresholds and thus it is presented as an unrecorded prior period adjustment.			
2	Cash and cash equivalents	142,560	-	-
	Net position	-	142,560	-
	To adjust the cash and cash equivalents in a bank account that was confirmed by the Office of the State Treasurer as part of the audit that was not reflected on the University's general ledger as of June 30, 2013.			

IG Review 0284

Audit Adjustments (continued)

The following table summarizes the audit adjustments identified by BDO during the 2013 audit of WSSB Radio Station's financial statements:

WSSB Radio Station				
Ref. #	Description	Debit	Credit	P&L Impact
Recorded Audit Adjustments				
1	Receivable from SC State University Foundation	5,417	-	-
	Cash and cash equivalents	-	5,417	-
	To reclassify cash and cash equivalents held by SC State University Foundation as of June 30, 2013 to a receivable.			
2	Depreciation expense	1,510	-	(1,510)
	Accumulated depreciation	-	1,510	-
	To adjust over stated depreciation expense for the year ended June 30, 2013.			
Unrecorded Audit Adjustments				
1	Accounts receivable	2,670	-	-
	Cash and cash equivalents	-	2,670	-
	To reclassify cash and cash equivalents that were received by WSSB Radio Station subsequent to June 30, 2013 to accounts receivable.			

Accounting and Auditing Standards

Professional standards require the auditor to communicate certain new significant accounting and reporting matters to the University's Audit Committee of the Board of Trustees so that we may assist the University's Audit Committee in overseeing management's financial reporting. Below we summarize these communications as they apply or will apply to the University and WSSB Radio Station:

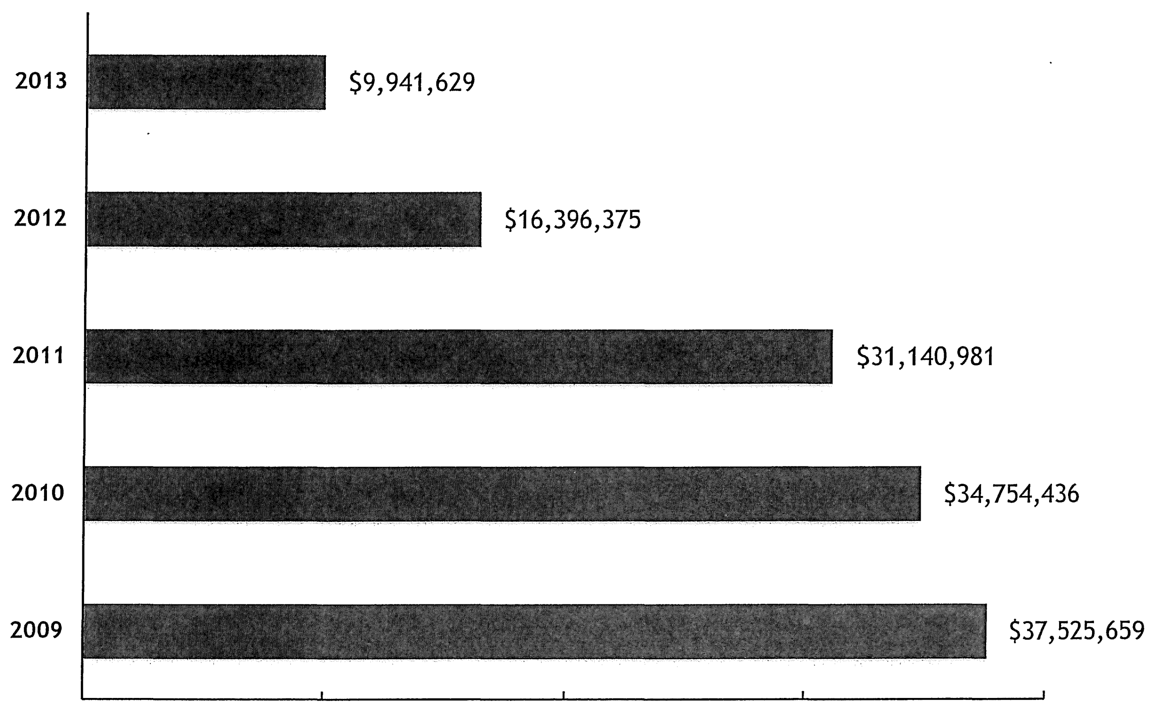
Requirement	Comments
In December 2010, the GASB issued GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1. Financial Accounting Standards Board (FASB) Statements and Interpretations 2. Accounting Principles Board Opinions 3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. GASB 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB 62 is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged and the provisions of GASB 62 are required to be applied retroactively for all periods presented	GASB 62 became effective for University and WSSB Radio Station in fiscal year 2013 and did not have a material impact on the financial statements.

Accounting and Auditing Standards (continued)

Requirement	Comments
In June 2011, the GASB issued GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63"). The objective of this GASB 63 is to provide a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB 63 requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. GASB 63 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged.	GASB 63 became effective for University and WSSB Radio Station in fiscal year 2013 and did not have a material impact on the financial statements.
In March 2012, the GASB issued GASB 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). The objective of GASB 65 is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. GASB 65 is effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged.	GASB 65 will be effective for the University and WSSB Radio Station in fiscal 2014. Management is currently evaluating the effect of GASB 65, if any.

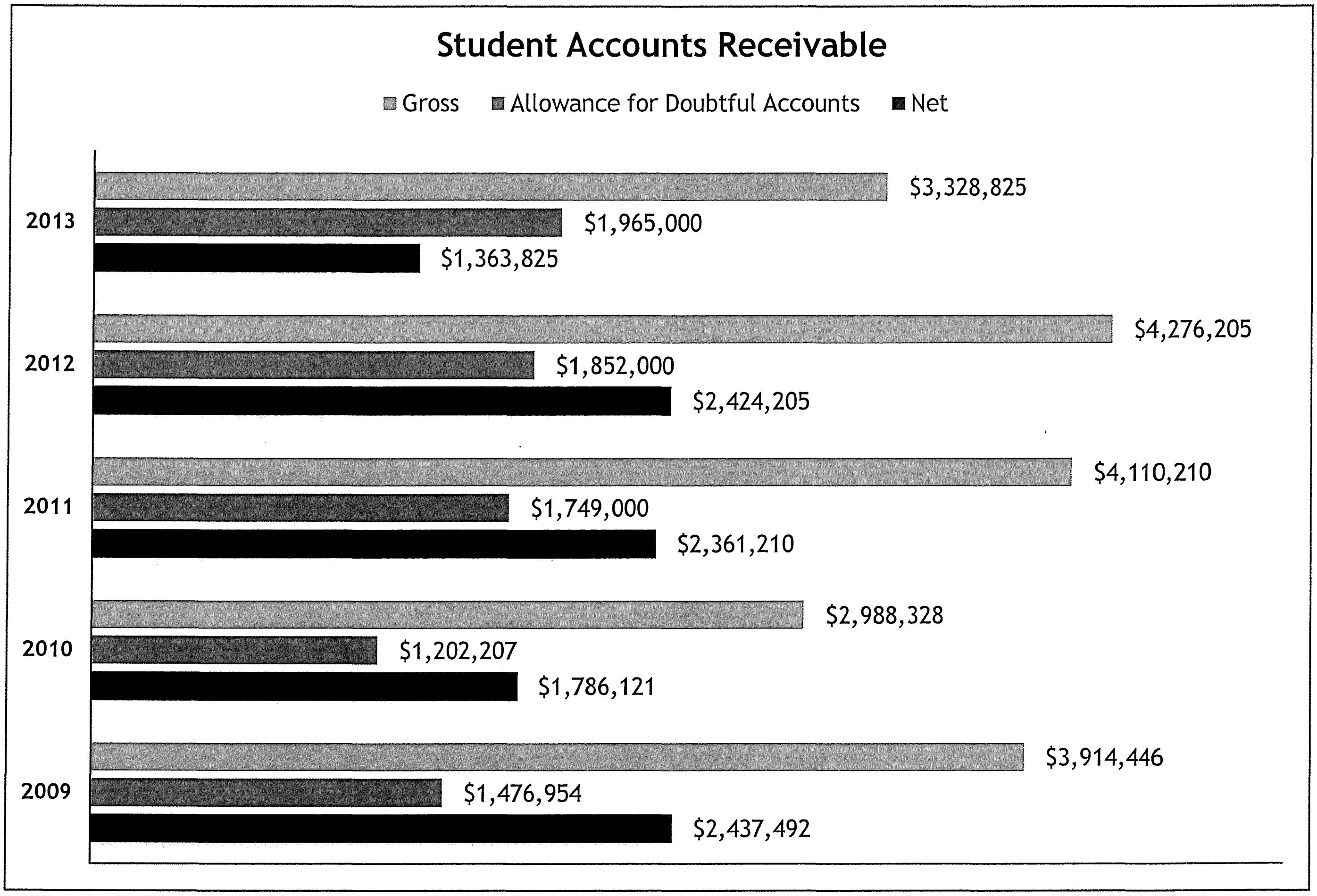
Overview of 2013 Financial Information

Cash and Cash Equivalents



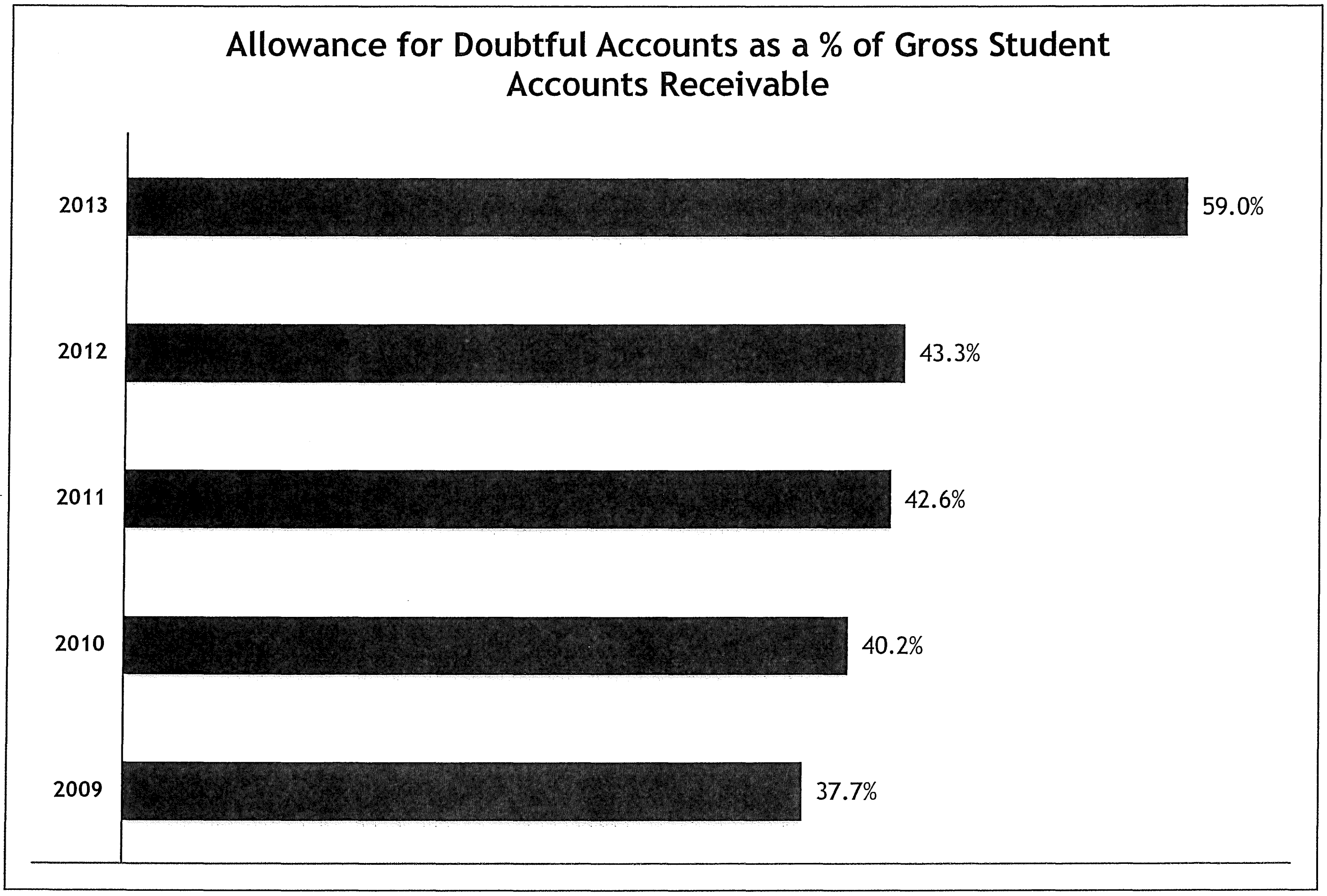
The University's cash and cash equivalents decreased by approximately $6.5 million from June 30, 2012 to June 30, 2013. This decrease was the net result of cash used by operating activities of approximately $(25.6) million, cash provided by noncapital financing activities of approximately $28.3 million, cash used by capital debt and related financing activities of approximately $(9.4) million, and cash provided by investing activities of approximately $0.2 million. Though there were a number of factors contributing to the $6.5 million decrease in cash and cash equivalents, a key driver of this decrease was the $5.8 million net loss that the University experienced during 2013.

Overview of 2013 Financial Information (continued)



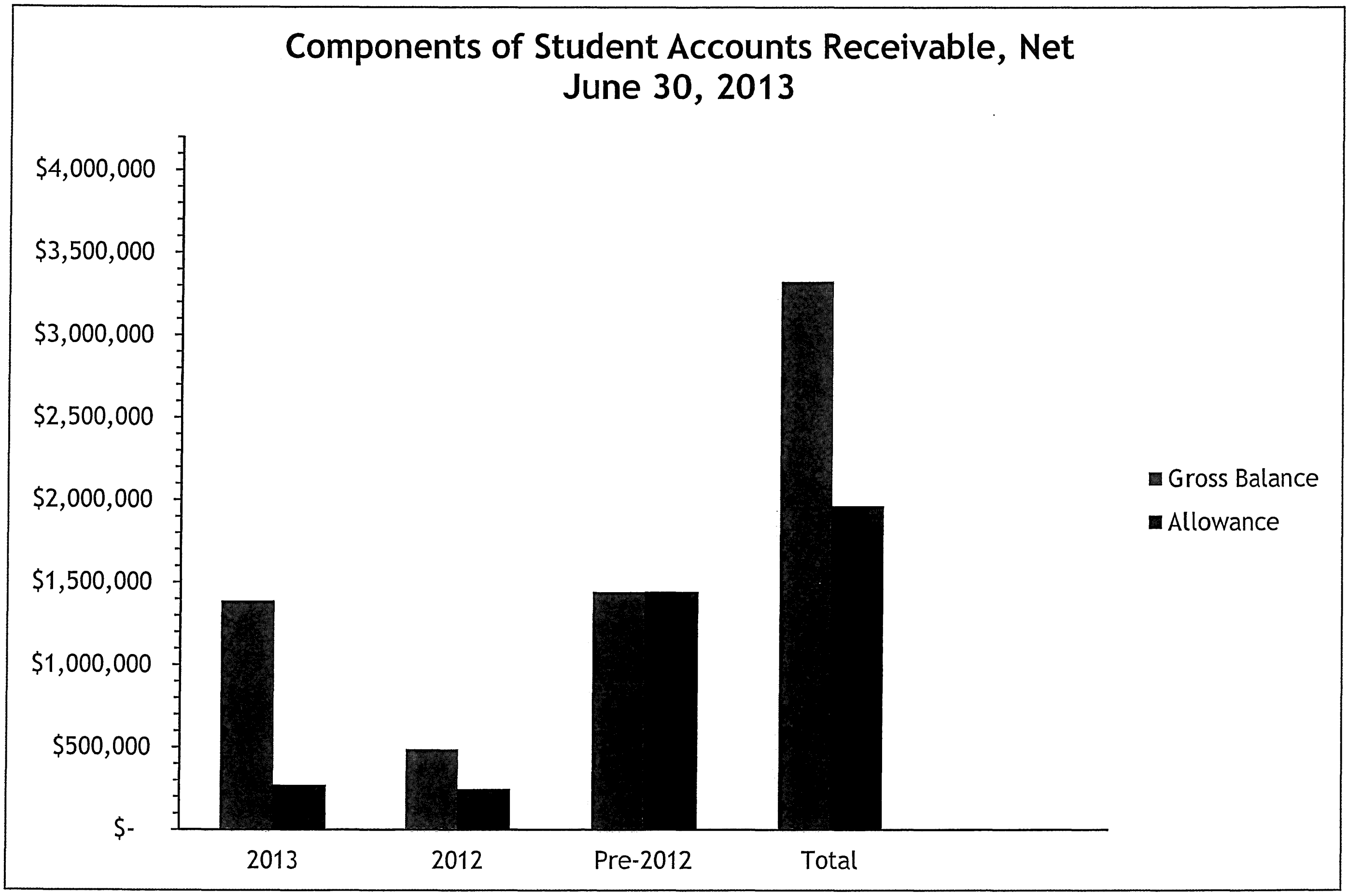
The University's net student accounts receivable decreased by approximately $1.1 million from June 30, 2012 to June 30, 2013. This decrease was primarily attributable to a decrease in net student tuition and fees during 2013 of approximately 13% and an increase in the allowance for doubtful accounts of approximately $113,000. Refer to the next 2 pages for additional analysis on student accounts receivable.

Overview of 2013 Financial Information (continued)



The allowance for doubtful accounts as a percentage of gross student accounts receivable increased by 157 basis points, from 43.3% at June 30, 2012 to 59.0% at June 30, 2013. This increase was primarily attributable to more individual student accounts having been outstanding longer as of June 30, 2013 as compared to June 30, 2012, and thus the University reserved a larger portion of the gross balance as June 30, 2013. In an institution of higher education setting, this trend can be attributable to a number of factors, including, but not limited to, the overall collection efforts of the institution as well as students with outstanding balances being allowed to reenroll at the institution, obtain transcripts, and/or graduate.

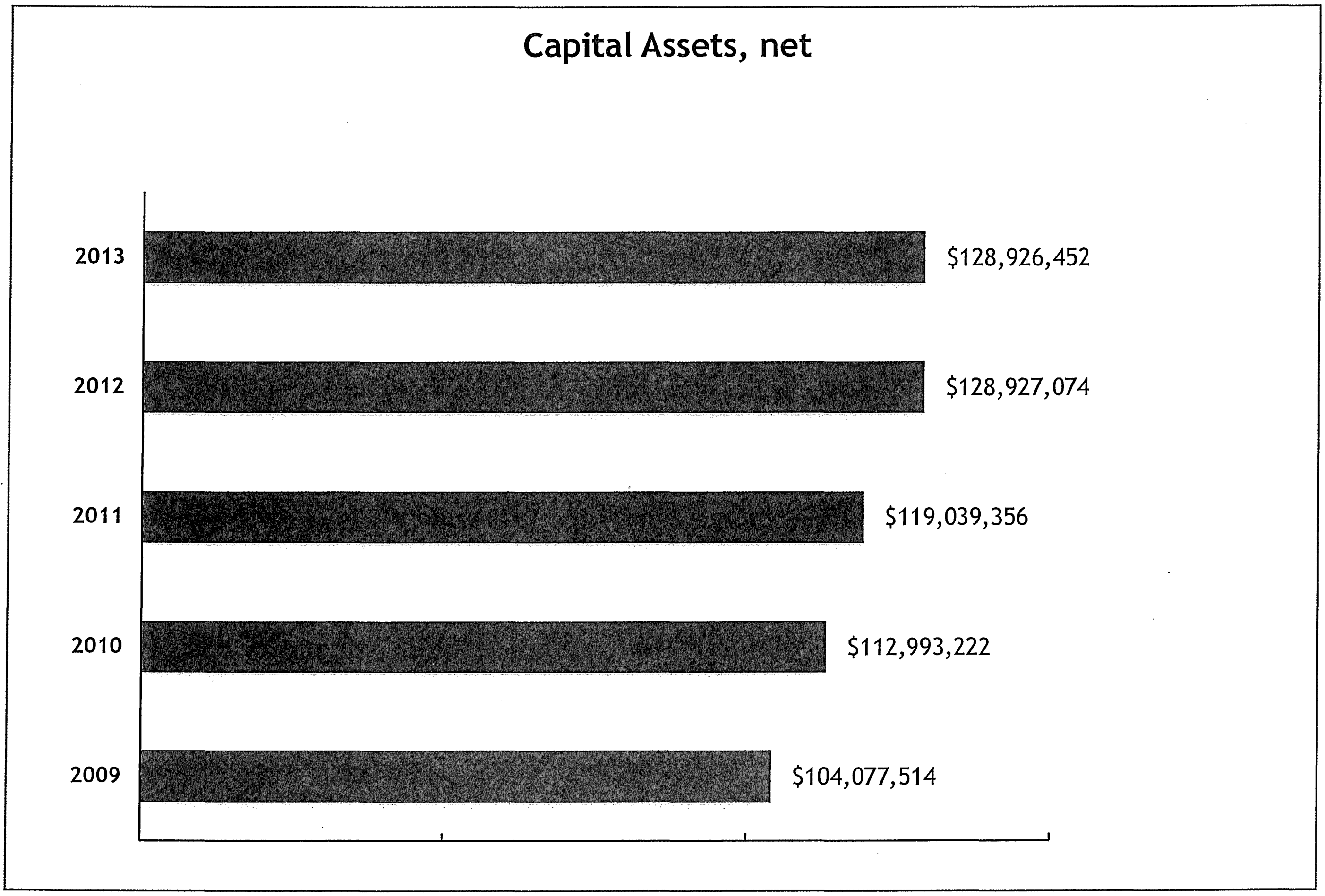
Overview of 2013 Financial Information (continued)



The above table summarizes the components of student accounts receivable at June 30, 2013 and does not represent a year over year trend analysis like the previous tables. As summarized above, gross accounts receivable earned during pre-2012 and outstanding at June 30, 2013 are 100% reserved for as of June 30, 2013. The gross accounts receivable earned during 2013 and 2012 and outstanding at June 30, 2013 are 20% and 50% reserved for as of June 30, 2013, respectively. Of the $1.4 million earned in 2013 and outstanding at June 30, 2013, 51% of the balance pertained to students that re-enrolled into the Fall 2013 semester at the University.

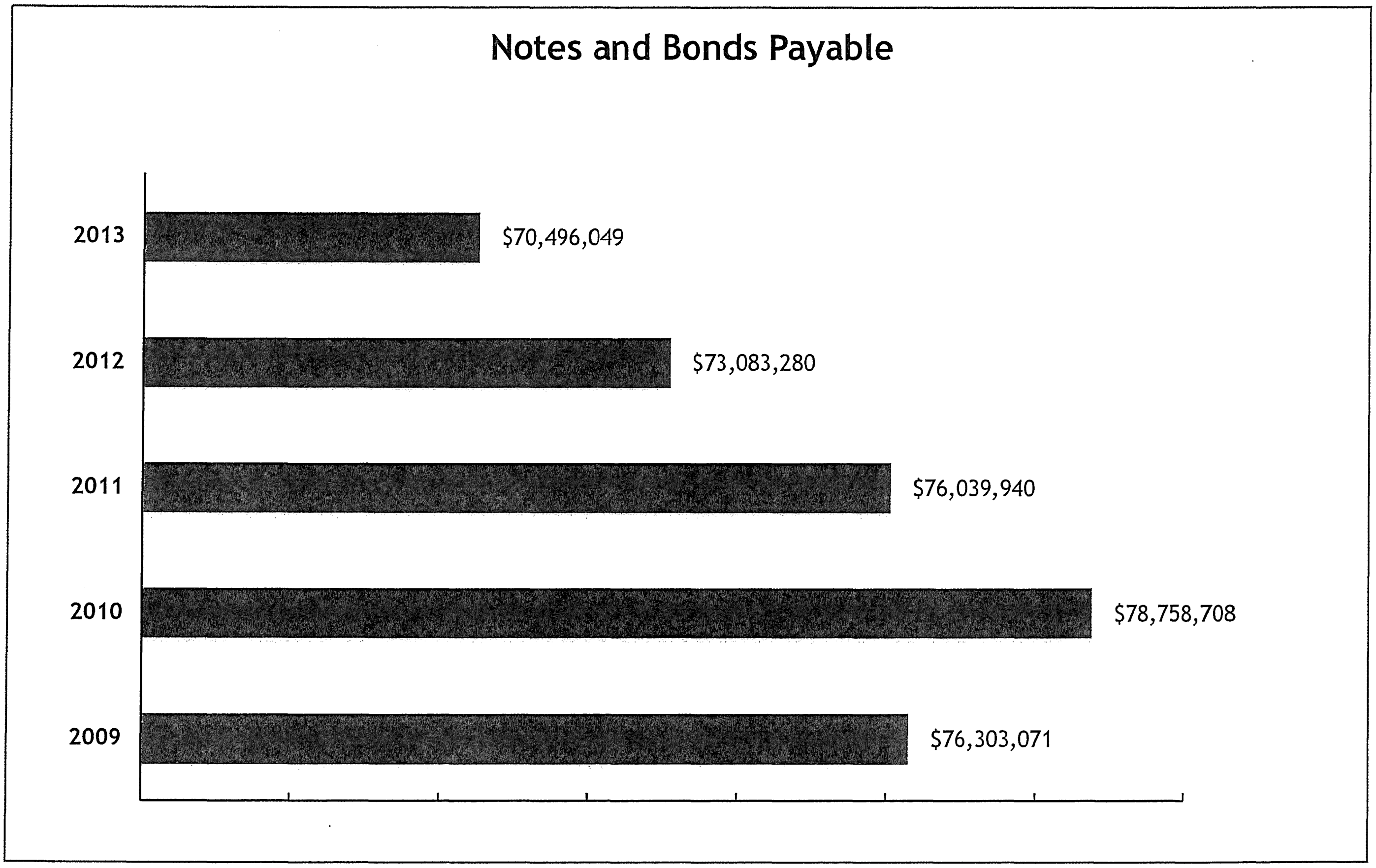
IG Review 0291

Overview of 2013 Financial Information (continued)



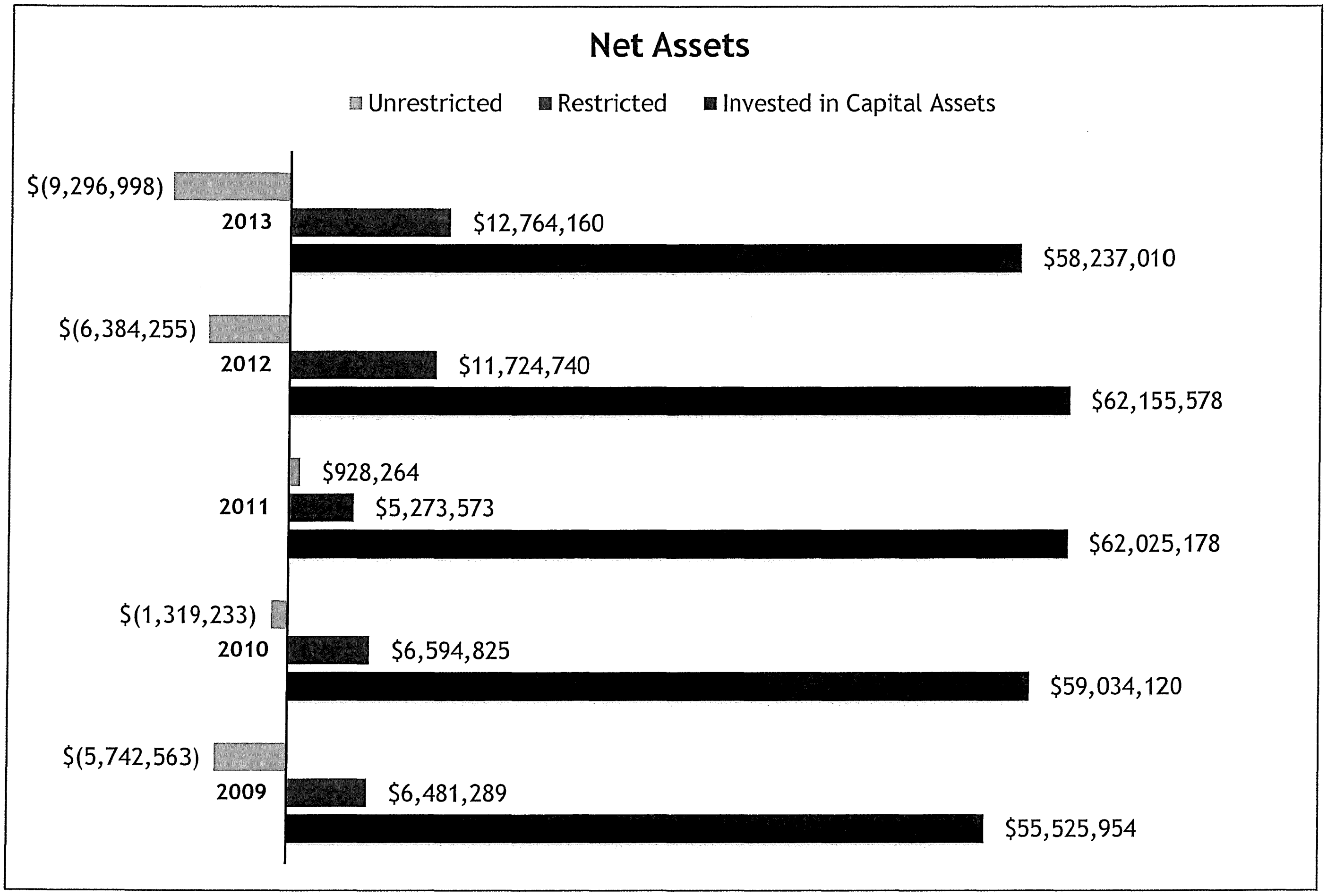
The University's largest asset at June 30, 2013 and 2012 was its capital assets, which comprised approximately 86% and 82% of its total assets, respectively. Capital assets, net balance at June 30, 2013 was consistent with the June 30, 2012 balance. This was attributable to current year capital asset additions of $5.6 million being offset by $5.6 million in 2013 depreciation expense.

Overview of 2013 Financial Information (continued)



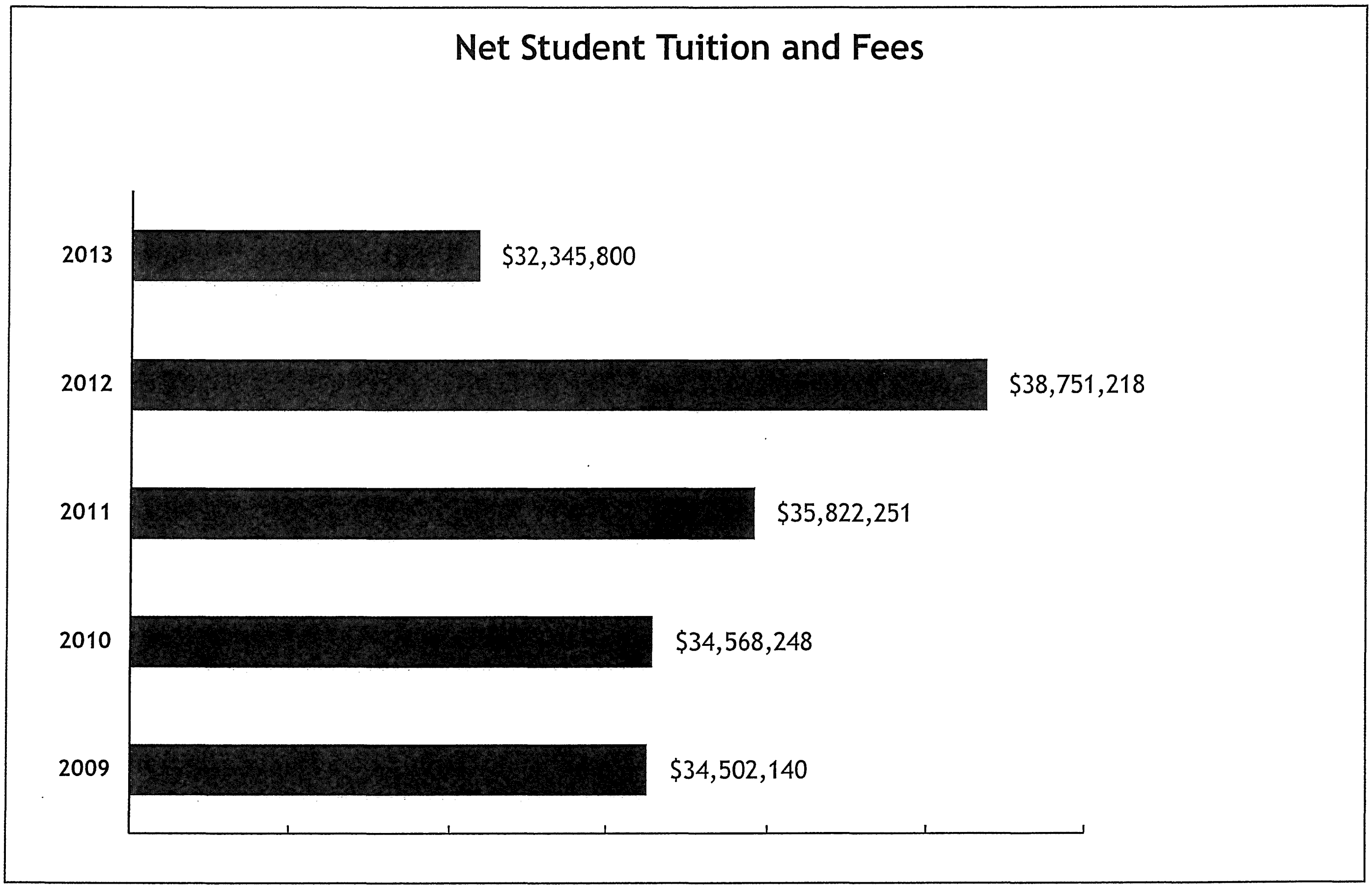
The University's largest liability at June 30, 2013 and 2012 was its debt (notes and bonds payable), which comprised approximately 80% and 81% of its total liabilities, respectively. The University's debt balance decreased by approximately $2.6 million from June 30, 2012 to June 30, 2013. This decrease was directly attributable to approximately $2.6 million in principal payments made during 2013.

Overview of 2013 Financial Information (continued)



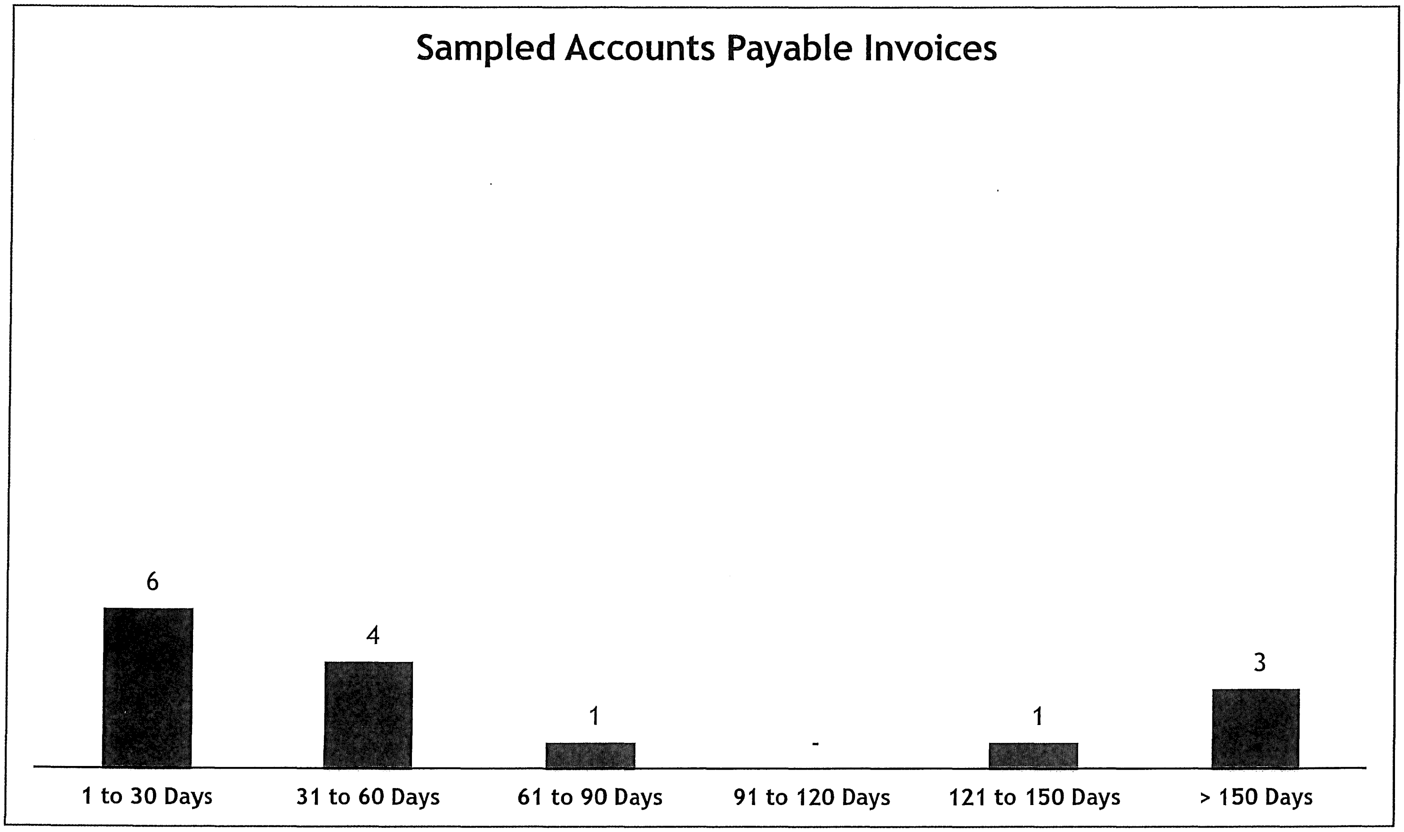
The University's overall net asset balance decreased approximately $5.8 million during the fiscal year ended June 30, 2013. The $5.8 million decrease is the result of $32.6 million in net operating losses being partially offset by $26.8 million in net non-operating revenues and state capital appropriations. The approximate $2.9 million decrease to unrestricted net assets was primarily due to a decrease of net tuition and fees of approximately $6.4 million partially offset by an increase state appropriations of approximately $2.8 million.

Overview of 2013 Financial Information (continued)



The University's net student tuition and fees decreased by approximately $6.4 million and 12.5% from 2012 to 2013. This was primarily due to a decrease of enrollment of approximately 11.5% and an increase in scholarship allowances of approximately $450K from 2012 to 2013.

Overview of 2013 Financial Information (continued)



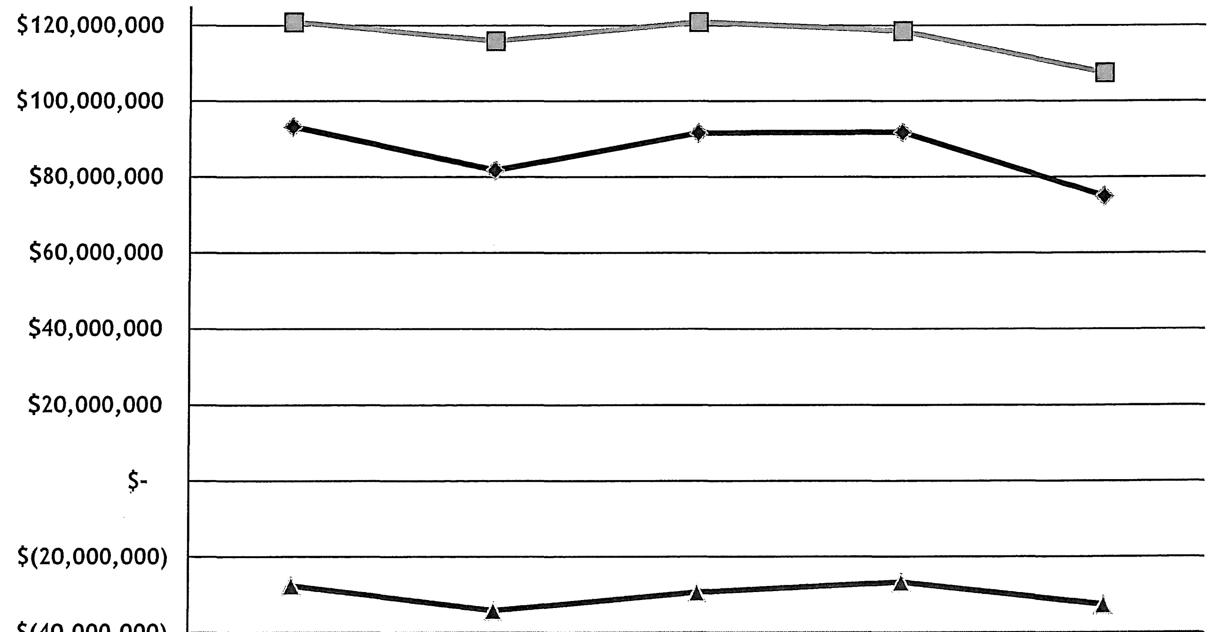
As part of our 2013 audit procedures, we randomly selected a sample of unpaid 15 invoices as of June 30, 2013 and compared the invoice date to the date the invoice began to be processed by the University. The above table summarizes the results of those procedures. Additionally, we noted the following supplemental metrics of sampled invoices:

•Minimum Days:	0 Days
•Maximum Days:	173 Days
•Average Days:	62 Days
•Average Days Excluding Outliers:	46 Days*

*There were 2 outlier invoices included in the above graph that were aged 156 and 162 days from the date of the invoice to the date the invoice was paid. The University did not have a record of when these invoices were received (i.e. these invoices were not stamped with the date of receipt), therefore the aging of these invoices for the purposes of the above graph was based on the date of each invoice rather than the date processing began by the University.

Historical Analytics and Ratios

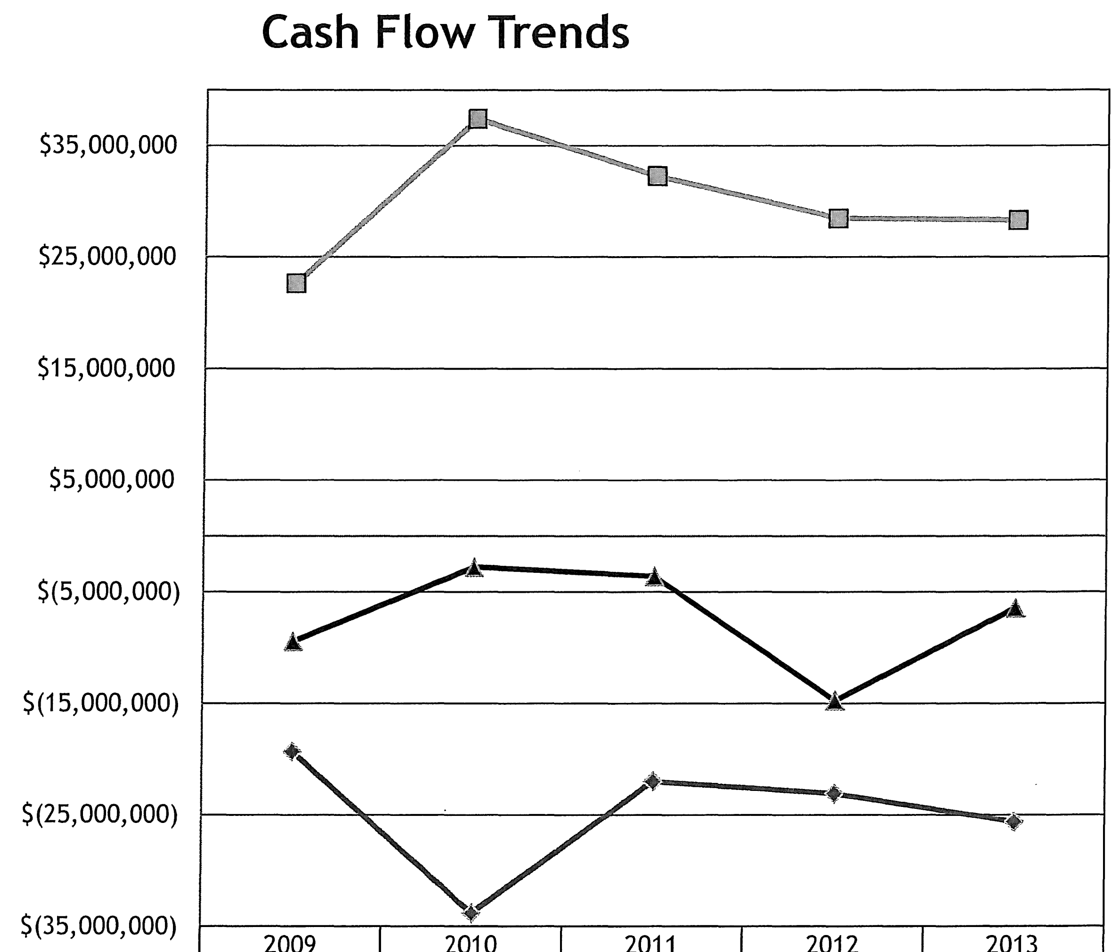
Operating Revenues , Operating Expenses, and Operating Losses



	2009	2010	2011	2012	2013
Operating Revenues	$93,275,369	$81,760,452	$91,600,969	$91,761,365	$74,938,278
Operating Expenses	$120,898,068	$115,921,624	$120,944,203	$118,485,709	$107,536,649
Net Operating Loss	$(27,622,699)	$(34,161,172)	$(29,343,234)	$(26,724,344)	$(32,598,371)

The above trend analysis indicates that the University's operating revenues have continuously been significantly less than its operating expenses and that the University is highly dependent on its net non-operating revenues (state appropriations, etc.) to cover or partially cover its net operating losses.

Historical Analytics and Ratios (continued)



	2009	2010	2011	2012	2013
Operating Activities	$(19,314,914)	$(33,801,451)	$(21,989,740)	$(23,079,595)	$(25,590,497)
Noncapital Financing Activites	$22,655,469	$37,430,563	$32,296,659	$28,473,656	$28,324,744
Total Change in Cash	$(9,428,707)	$(2,771,223)	$(3,613,455)	$(14,744,606)	$(6,454,746)

The above trend analysis indicates that the University's net cash used by operating activities has been the key contributor to the University's total decrease in cash for the past 5 years. The University's is highly dependent on cash inflows from non-capital financing activities (state appropriations, federal grants, etc.) to partially offset cash used by its operating activities.

Historical Analytics and Ratios (continued)

Composite Financial Index

The Composite Financial Index demonstrates the health of the University by compiling information across key areas. It is established by first calculating four ratios and combining them to create a single score of financial health:

- ***Primary Reserve Ratio*** - Reflects whether the University has sufficient flexible resources to meet its needs
- ***Net Operating Revenues*** - Reflects the ability of the University to live within its means on a short-term basis
- ***Return on Net Position Ratio*** - Reflects the University's ability to generate overall return against all net resources
- ***Viability Ratio*** - Outstanding long-term obligations against the University's expendable wealth

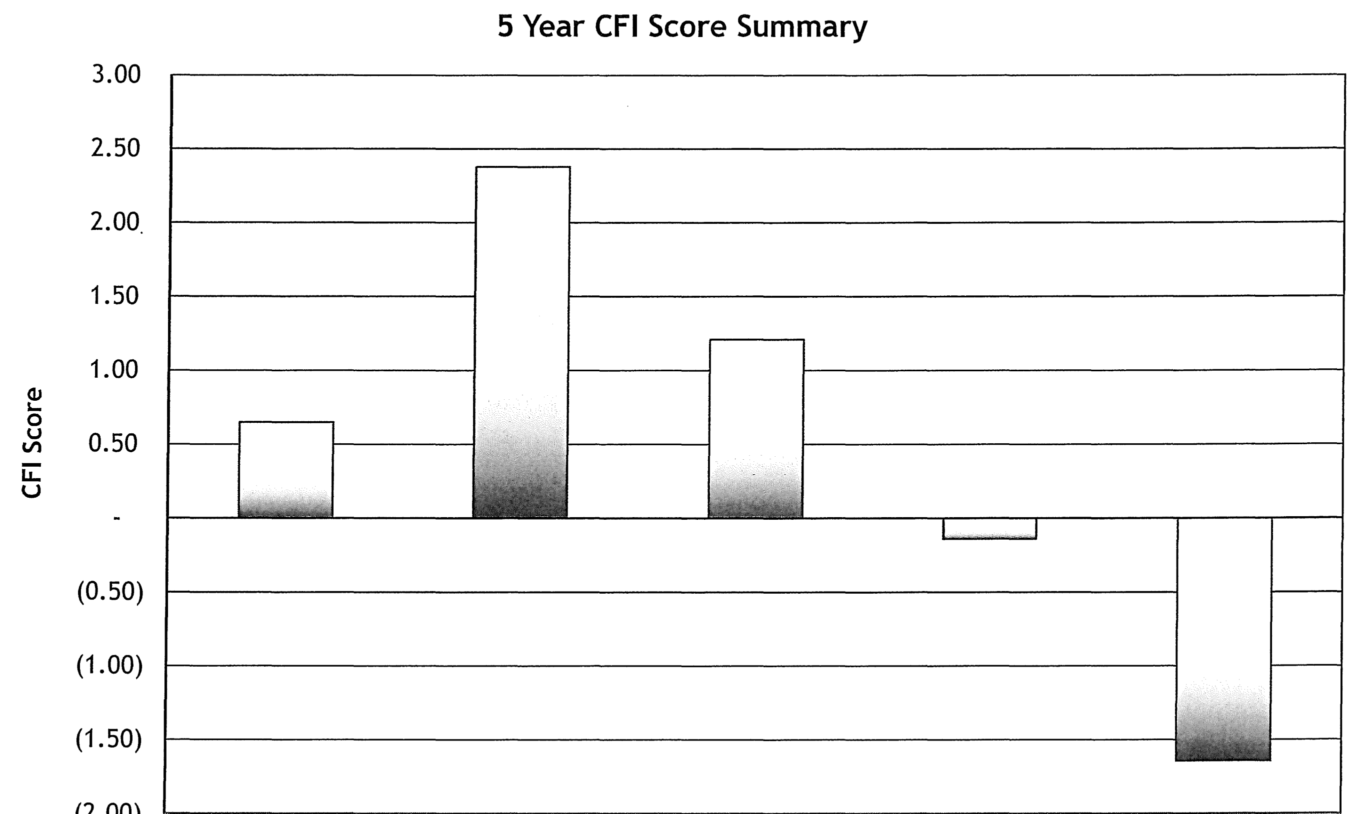
The following tables summarizes the CFI calculation for fiscal 2013:

	Fiscal 2013				
Ratio Description	**Ratio**	**Strength: Divide Ratio**	**Scoring Scale: Multiply**	**Weight: Multiply**	**CFI Score**
Primary Reserve	0.0035	/ 0.133	x 1	x 0.35	**0.01**
Net Operating Revenues	(0.0550)	/ 0.007	x 1	x 0.10	**(0.79)**
Return on Net Position	(0.0858)	/ 0.020	x 1	x 0.20	**(0.86)**
Viability	0.00550	/ 0.417	x 1	x 0.35	**0.00**
CFI Score					**(1.64)**

Historical Analytics and Ratios (continued)

Composite Financial Index

The following table summarizes the University's CFI history for the past five years:



	2009	2010	2011	2012	2013
□ CFI Score	0.65	2.38	1.21	(0.14)	(1.64)

The significant decrease in the University's CFI score from fiscal 2012 to 2013 was primarily attributable to:

- The University had a net loss of approximately $730,000 in fiscal 2012 compared to a net loss of approximately $5.8 million in fiscal 2013 (an increase in net loss of 692%).

- The University had an unrestricted net deficit of approximately $6.4 million at June 30, 2012 compared to a unrestricted net deficit of approximately $9.3 million at June 30, 2013 (an increase in unrestricted net deficit of 46%)

<u>NOTE:</u> *The CFI score calculations used in preparing the CFI scores presented as part of our 2012 audit results were updated during our 2013 audit to include ratio inputs, ratio strengthens, and weights that are more representative of the University's financial health. Thus, if you compare the above table to the 2012 table, you will see certain variances that resulted in update.*

Historical Analytics and Ratios (continued)

Composite Financial Index

The following table provides an explanation of the CFI score and key actions for each level of the score.

Scale Level	CFI Scoring Range	Action
1	<0 to 1	Assess viability of institution's survival
2	0 to 2	Reengineer the institution
3	1 to 3	
4	2 to 4	Direct resources toward transformation
5	3 to 5	
6	4 to 6	Focus resources to compete
7	5 to 7	
8	6 to 8	Experiment with new initiatives
9	7 to 9	Experiment with new initiatives; achieve a robust mission
10	> 9	Deploy resources to achieve a robust mission

Ac'sense Program

Ac'sense[SM] is a BDO program designed to assist those charged with governance (including audit committees, boards of directors and financial executives) of both public and private companies in keeping up-to-date on the latest corporate governance and financial reporting developments.

The program is multi-faceted and consists of complimentary CPE-worthy webinars and self-study courses covering both broad and specific topics of interest, publications, and links to various BDO and external resources. Visit **http://www.bdo.com/acsense.**

Ac'sense Webinars

Our webinar programs are presented by our firm technical experts and comprise both short-form and longer-form webinars on a variety of "hot" topics of interest, such as "Compensation Risk," "Fair Value Matters," "Business Combinations," "Applying New Revenue Recognition Rules," "Ethics and the Corporate Board," and many others. In addition, we host several series including our "Quarterly Technical Updates" and "International Financial Reporting Standards" on financial accounting and reporting matters as well as "Focus on Fraud." Our webinars are complimentary and are generally applicable for audit committees, board members, management, finance and compliance professionals of both public companies and private companies. In addition, most webinars and archives are worthy of Continuing Professional Education (CPE) credit. Please visit our website **http://www.bdo.com/acsense** for further information on upcoming and archived webinars.

Effective Audit Committees in the Ever Changing Marketplace

The focus of Ac'sense is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the ***Effective Audit Committees in the Ever Changing Marketplace*** publication as a practical guide to forming and running an effective audit committee. Within this publication, we provide answers to certain frequently asked questions (FAQs) centering on the WHYs, WHOs, WHATs, WHENs and HOWs of audit committees. More specifically, these FAQs summarize the common functions and responsibilities of audit committees and seek to provide insights and perspective as to how to optimize audit committee effectiveness. Our vision has been shaped by our own experiences with our clients and interpretations of the specific recommendations, guidelines, and rules of the SEC; the stock exchanges; the Public University Accounting Oversight Board (PCAOB); the American Institute of Certified Public Accountants (AICPA); and the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, sponsored by the New York Stock Exchange and the National Association of Securities Dealers.

Throughout this publication, we focus on some of the more challenging aspects facing audit committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources. The guide and practices aids are available at: **http://www.bdo.com/acsense/effective.aspx.**

APPENDIX A

A Comparison of the 2013 and 2012 Financial Statement Opinions

2013 Financial Statement Audit Opinion

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Carolina State University (the "University"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the University as listed in the table of contents.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina State University Foundation, Inc. (the "Foundation"), which represent 4.5 percent, 11.0 percent, and 3.3 percent, respectively, of the assets, net position, and operating revenues of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements do not include financial data for South Carolina State University Advancement Foundation (the "Advancement Foundation"), one of the University's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the Advancement Foundation to be reported with the financial data of the University unless the University also issues financial statements for the financial reporting entity that include the financial data for its component units. The University has not issued such reporting entity financial statements.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the University, as of June 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of the University as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statistical Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

2012 Financial Statement Audit Opinion

We have audited the accompanying financial statements of the business-type activities of South Carolina State University (the "University"), as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina State University Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the University are intended to present the financial position, the changes in its financial position, and where applicable, cash flows of only that portion of the business-type activities of the State of South Carolina that is 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, 2012, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The South Carolina State University Advancement Foundation (the "Advancement Foundation") is a component unit of the University. As the Advancement Foundation's statement of financial position and statement of activities as of and for the year ended June 30, 2012 were not readily available as of the date of this report, the University did not discretely present these financial statements. The discrete presentation of the 2012 financial statements of the Advancement Foundation is required by accounting principles generally accepted in the United States of America.

In our opinion, except that the omission of the Advancement Foundation's statement of financial position and statement of activities as of and for the year ended June 30, 2012 that results in an incomplete presentation as explained in the preceding paragraph, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 30, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

APPENDIX B

Financial Statement Audit - Management Letter Comments

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October 30, 2013

Management and Board of Trustees
South Carolina State University

In planning and performing our audit of the financial statements of South Carolina State University (the "University") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be control deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Significant Deficiencies

We consider the following deficiencies to be significant deficiencies in internal control:

Physical Count of Capital Assets

As part of our 2013 audit procedures, we observed the University's capital asset physical count on July 10, 2013. We noted that the count included capital assets purchased with both federal and non-federal funds through June 30, 2013. During our procedures over the capital asset physical count we noted the following items:

- For 2 samples, the custodians were not aware that the sampled capital assets were assigned to them.

- For 1 sample, the assigned custodian had not worked for the University for over 2 years.
- For 2 samples, the assets were determined to not be salvageable during the physical count. We noted that both of these samples were fully depreciated as of June 30, 2013 and thus had a net book value of $0, however, they were included in the June 30, 2013 capital assets detail.
- For 2 samples, we noted that the items did not have a capital assets tag on them as required by the University's policies and procedures to easily identify and monitor its capital assets. We noted that 1 of these 2 samples was purchased in December 2004 and that it was still in its original packaging and did not appear to have ever been used.
- For 7 samples, we noted that the items did not have a red capital assets tag (which indicates that the asset was purchased with federal funds) on them as required by the University's policies and procedures to easily identify and monitor its federally purchased capital assets.
- For 1 sample, the asset was not located where it was specified on the capital assets detail. The asset was however found and identified by management during the physical count.

Though the purpose of a physical count is to detect and correct items such as the ones listed above, given number and varying degree of these items, we recommend that the University enhance its internal controls over capital assets to include more controls that would prevent such issues from occurring (as opposed to detecting such matters after the fact). We also recommend that the University enhances its internal controls over the physical count to include a more thorough reconciliation that will ensure that unsalvageable items identified during the count are subsequently removed from the capital assets detail and that items that are purchased with federal funds are properly identified as such on the capital assets detail.

Additionally, based on the information gathered during our observation of the capital asset physical count, our year end audit procedures, as well as the bulleted items noted above, it does not appear that the University has a strategic plan to conduct a physical count on a rotating basis to ensure that all capital assets are counted at least once during a predetermined period of time. As a result, it was unclear whether all capital assets had been subjected to a recent physical count. We recommend that the University develops a strategic plan that will ensure all capital assets are physically counted at least once every 2 years.

Management Response:

Transfer from FRS fixed asset system to Banner fixed asset system was completely done in early part of 2011. Initial physical count was conducted by respective department head/custodian in 1st six months of 2011 and submitted copies to Property and Inventory Control Office. The new policies and procedures on property and inventory control were then drafted for implementation effective July 2011. Management hired new employee to fill the vacant position of Facilities and Fixed Assets Accountant in January 2012 to oversee the transition of the new system and implementation of the new policies and procedures. The new person together with the property and inventory control manager did a cycle count/verification of fixed asset in 1st six months of 2012. However, the new person was temporarily assigned in general accounting when general accountant resigned in July 2012. The Property and Inventory Control Manager (Supply Specialist II) continued the implementation of physical inventory cycle in 2013. The draft policies and procedures were updated in February 5, 2013. At present, the new policies and procedures were not yet formally approved by management and the Board due to organizational change for the *last two years. In general, management has strategic plans to conduct a physical count on a rotating basis but not full swing due to resource limitation. The physical inventory count cycle in 2014 will start in February 1 to April 30, 2014.*

We will remind the department heads as well as the custodians of equipment to follow the new policies and procedures especially when there is movement or transfer of accountability.

We will investigate the item that was purchased in 2004 which is still in original package and has never been used.

Schedule of Expenditures of Federal Awards

In testing the University's internal controls over reconciliation of the 2013 schedule of expenditures of federal awards ("2013 SEFA"), we noted that the expenditures of Federal Direct Loans were not reconciled to the appropriate reports from the Office of Student Financial Aid. In investigating the variances, we noted that this was attributable to the University using a cash basis report rather than an accrual basis report, resulting in an overstatement of Federal Direct Loan expenditures of approximately $1.7 million for the year ended June 30, 2013. We noted that this was attributable to an administrative oversight resulting from the recent turnover experienced by the University at the Director of Financial Aid position near the end of fiscal year 2013 as well as the reports provided by the Office of Financial Aid to the Controllers' Office not being easily reconcilable to the University's general ledger. We recommend that the University enhances its internal controls over the reporting of its Federal Direct Loans to ensure that the information needed to prepare the schedule of expenditures of federal awards can be easily obtained even when turnover experienced and that this information is reconciled to the schedule of expenditures of federal awards.

Management Response:

The Office of Financial Aid has started documenting the procedure used to reconcile all Federal Funds. We will use DL Tools and Banner to ensure monthly SAS reports provided by Common Origination and Disbursement (COD) are used to balance Direct Loan funds between Banner Financial Aid, COD and an electronic spreadsheet will be shared with the Controllers' Office to balance to the general ledger. All Federal and State funds will be balanced on a Monthly basis per Federal Regulations.

Information System Extractions and Compilation of Financial Statements

During our planning and year end audit procedures, we noted that certain system financial information data, including general ledger account details and journal entries, could not be easily extracted in a useable format from Banner by the University. The root causes of this issue appeared to be a combination of Banner limitations, Banner not being configured upon installation to meet the financial reporting needs of the University, the University not fully using Banner resources (modules, upgrades, help desk, etc.), and various staff (including IT) at the University not having been properly trained to utilize Banner and Banner's database to its fullest capability. Additionally, we noted that Banner was not functioning or operable for several days during the University's yearend financial statement close. Furthermore, we noted that the University purchased ARGOS, a supplementary financial reporting system purchased several years ago to facilitate financial reporting; however key University departments/personnel, including the Controller's Office, were not provided with the appropriately level of technical support (i.e. building of data block) to effectively utilize ARGOS in the University's financial reporting process. The combination of the Banner issues and the University not utilizing Argos to its fullest capacity contributed to the numerous delays experienced in the University's 2013 financial statement close process, the preparation of its 2013 financial statements, the preparation of its 2013 schedule of expenditures of federal awards, and the compilation of various populations needed for the 2013 audits of the University.

Additionally, though it is not uncommon for universities to utilize Excel to facilitate the preparation of financial statements, we noted that the University is excessively dependent on Excel to compile the financial statements primarily due to the Banner extraction issues summarized above. The University's procedures to prepare the yearend financial statements includes running various queries to download general ledger data from Banner, importing the downloaded information into Excel, using Excel filters and Excel formulas to clean up and sort the data, using Excel formulas to create new data fields that are needed to compile the financial statements, running pivot tables to summarize the information by individual financial statement accounts, and adjusting the individual financial statement accounts within Excel through a series of top side journal entries needed to convert the financial data to U.S. GAAP basis. Each of the above steps requires significant manual input, each of which incrementally increases the risk of error. We also noted that there was not adequate segregation of duties surrounding these Excel documents as there did not appear to be any formal internal controls to evidence that these documents were reviewed by someone other than the preparer. As a result of the increased risk in this area that was triggered by the absence of adequate segregation of duties, we spent a considerable amount of out-of-scope time testing, vouching and recalculating the information included in these documents to ensure the material accuracy and completeness of the financial statements.

We recommend that the University work directly with Banner representatives to create efficiencies, utilize Banner to its fullest capabilities and to better extract the financial information needed to prepare the financial statements and its audits. Additionally, we recommend that the University expands its training programs to require that all employees that need to use Banner and ARGOS have been properly trained and that adequate technical support is provided to all departments/personnel that utilize these systems. Furthermore, we recommend that the University enhance its financial statement preparation process to reduce its reliance on Excel and to create proper segregation of duties in the compilation of the information and calculations utilized in preparing the financial statements of the University.

Management Response:

We agreed to implement the recommendation. Controller's Office is now working with a consultant to help use ARGOS as a tool in financial reporting.

Limited Departmental Resources

During the course of our audit procedures, we noted that certain offices (Finance, Student Financial Aid, Grants and Contracts, etc.) appeared to be under staffed as a result of retirements, resignations, terminations, and cross-department job placements. Though our key audit contacts appeared to work longer hours to compensate for the understaffing, the limited department resources ultimately contributed to the numerous delays experienced in the University's 2013 financial statement close process, the preparation of its 2013 financial statements, the preparation of its 2013 schedule of expenditures of federal awards, and the compilation of various supporting documentation needed for the 2013 audits of the University.

Additionally, during our procedures over Student Financial Aid, we noted that the Director of Student Financial Aid left the University to assume a new position at a different institution of higher education. The University did not appear to have a transition plan in place for the loss of this key employee and thus other Student Financial Aid personnel did not appear to be adequately crossed trained to assume the former Director of Student Financial Aid's responsibilities while the University searched for a qualified replacement. This contributed the schedule of expenditures of federal awards finding discussed above.

We recommend that the University evaluates its resource needs to ensure that each of its offices is adequately staffed to meet the objectives of each of those offices. Additionally, to ensure that a loss of a key employee does not have a significant operational impact, we recommend that the University cross trains its employees so that all significant responsibilities are covered in the case of transition of a key employee.

Management Response:

We will request that each Directors/Managers document the policies and procedures for their respective business processes. Also, that they consolidate these documents into one user manual that will be available to all staff members. Revisions to the users' manual should be made as needed to ensure the manual is current at all times. Communicate significant changes to all affected personnel immediately to ensure they are aware of any revisions to their daily duties and responsibilities. Therefore, in the event that there are changes in personnel (i.e. new employees are hired, promotions granted, resignations, etc.), documented policies and procedures will facilitate training and provide guidelines for the respective positions. Furthermore, the University is actively searching for qualified individuals to fill certain key positions with vacancies and hired a new Director of Student Financial Aid prior to the conclusion of the 2013 calendar year.

Vendor Listing

The vendor list within Banner (the "Vendor List") represents the list of employees, third parties and other parties (collectively, the "Vendors") that Banner recognizes as approved Vendors and thus allows purchase orders and payments to be processed for each of the Vendors. During our 2012 audit procedures over the University's procurement process, we noted that the University did not appear to have formal internal controls over the Vendor List. As a result, in fiscal year 2012, we noted that there were 69 users in Banner that had system access to add new vendors to the Vendor List and that there were approximately 18,500 that were included on the Vendor List. As part of our 2013 audit procedures, we revisited the Vendor List, noting that the University had reduced the number of users in Banner that had system access to add new vendors to the Vendor list down to 4 users and that all 4 users appeared to appropriately have access given their position at the University. However, we noted that for 2013, that the University increased the number of Vendors to approximately 19,550. Given the size of the University, we believe that this number of Vendors is excessive. To assist the University in managing the Vendor List, to ensure that all

Vendors properly exist, to ensure that the Vendors do not create any conflict of interest with the University, and to ensure that the Vendors are not federally excluded parties, we recommend that the University enhances its internal controls over the Vendor listing.

Additionally, to reduce the number of Vendors to a more manageable number, we recommend that the University conducts a comprehensive review of the Vendor Listing to delete any duplicative vendors, vendors that are not expected to be used going forward, any vendors that management may not recognize any more due to passage of time, any vendors that may create conflicts of interest, any vendors that may have been subsequently added to the federally excluded parties listing and any other vendors that appear to be not needed. At the conclusion of this comprehensive review, we recommend that it is circulated for approval by the appropriate University officials.

Management Response:

One group not mentioned is students. The large number of vendors includes students. University IT will work with the appropriate University officials to develop a vendor purge/inactive procedure to reduce the number of active vendors. The large number of users who could add new vendors in 2012 included test user accounts and accounts that were only active in test environments and not in the production environment.

Affiliated Foundations of the University

During our related party audit procedures, we noted that the South Carolina State University Advancement Foundation (the "Advancement Foundation") met the definition of a component unit of the University; however, it was not discretely presented in the University's 2013 financial statements as required. This attributable to the Advancement Foundation's financial statements being prepared on a 2 year lag and thus its June 30, 2013 financial statements were not available. As a result, as it pertains to the University's 2013 financial statements, the fiscal year covered in the most current financial statements of the Advancement Foundation, did not cover the fiscal year required by Government Accounting Standards Board Section 2600, *Reporting Entity and Component Unit Presentation* ("GASB Section 2600").We were provided with the Advancement Foundation's 2013 Form 990 which included certain financial information of the Advancement Foundation, however this form did not include the level of information needed for the 2013 financial statements of the University to be in compliance with GASB Section 2600. We recommend that the University works closely with the Advancement Foundation to ensure that the Advancement Foundation's financial statements are prepared and provided the University in a more timely fashion.

Additionally, we noted that the South Carolina State University Research and Development Foundation (the "R&D Foundation") which was created in fiscal year 2005 was not properly communicated to the Controller's Office until fiscal 2013. Though the R&D Foundation did not have any material assets, liabilities, net assets or transactions that would warrant it to be included as a discretely presented component unit within the University's financial statements, its existence should have been communicated to the Controller's Office. Additionally, we noted that during fiscal 2013 that the R&D Foundation initiated certain federal transactions which involved the University without the proper authorization from the University. Though these transactions were detected by the University and terminated, the University was exposed to certain unnecessary compliance risk, especially since these transactions included federal funds. We recommend that the University design and implement internal controls to ensure the creation of component units are communicated to the Controller's Office in a timely manner. Additionally, we recommend that the University enhance its internal controls surrounding transactions with affiliated foundations as well as the monitoring of its affiliated foundations to minimize its exposure to compliance risk.

Management Response:

The University President and the Chairman of the Board already communicated with the Board of Advancement Foundation. The Advancement Foundation has indicated that upon receipt of resources from the University, it will present discreet statements to the University. Until such time, the Advancement Foundation has determined that the development and presentation of discreet statement on an annual basis is not cost effective.

The future formation of component units of the University is a contractual event, which subsequent to the establishment of the "Policy on the Authority to Sign Contracts and Contract Routing and Approval Form" on April 18, 2013, must be approved by the Vice-President of Finance in addition to other University officials. In as much as the Controller's Office is a direct reporting entity to the VP of Finance, there is assurance that the future creation of component units will be timely communicated to the VP of Finance as well as his/her direct reports, which include the Controller's Office. The R&D Foundation was dissolved on or about August 22, 2013. The governing boards of the remaining affiliated foundations have at least one University employee or Board of Trustee member as part of its governing body. This presence should ensure the University is adequately monitoring the activities of its affiliated foundations.

Compensated Absences Payable

During our procedures over compensated absences payable, we noted that the University had internal controls in place for the recognition of leave taken and reported by eligible employees. However, during these procedures we did not note a formal internal control in place to prevent or detect leave taken but not reported. As a result, of the approximately 420 eligible compensated absences employees at June 30, 2013, we noted that the University had recorded the maximum amount of compensated absences payable for approximately 40% of these employees (up from 37.5% in 2012). Additionally, we noted that out of the 168 employees that had the maximum amount of compensated absences payable at June 30, 2013, that 19 employees did not have any vacation that was taken and recorded during the year ended June 30, 2013. To assist with the accuracy of the compensated absences payable, we recommend that the University design and implement an internal control that would prevent or detect leave taken by eligible employees but not reported.

Management Response:

The Human Resource Director sent a personalized email to all eligible employees concerning the University's Leave Policy. The leave directive reminded employees that managers and supervisors are expected to administer the leave policies in accordance with South Carolina law. In addition, they were told that all leave request forms must be submitted to HR within two days of the approved request. Employees who are not at *their worksite (unless on official University business) during their regular working hours must submit a leave request form.*

Employees were also reminded that "Falsification of attendance or leave records shall be cause for disciplinary action up to and including termination". The HR Staff will monitor the leave reports closely and send out quarterly reminders to departments with no leave recorded.

Grants and Contracts

During our procedures over the University's grants and contracts, we noted that the University was not able to provide us with a full population at the commencement of our audit fieldwork. In mid-September during the later stages of the 2013 audit, there was a post-closing adjustment proposed by management to write off certain overstated state appropriations that had been previously recognized by the University. Though this overstatement was detected by the management of the University, we noted that it was detected well past the commencement of the 2013 audit and that it was attributable to deficiencies within the University's process of recognizing state appropriations revenue. These deficiencies resulted in certain state appropriations revenues being erroneously recognized twice and thus certain Grants and Contracts Receivable recorded were not valid as of June 30, 2013. We recommend that management enhances its procedures as well as its internal controls over state appropriations to prevent the duplicative recognition of such revenues.

During our audit procedures, we also noted that the University's Grants and Contracts Receivable and Grants and Contracts Deferred Revenue balances are not reconciled on a monthly basis, but rather at year end. As the University had to reconcile 12 months' worth of Grants Receivable transactions all at year end, the magnitude of reconciling items made it difficult to properly clear out and adjust individual transactions in a timely and accurate manner. This resulted in numerous post-closing adjustments being posted by the University in mid-September, which was 5 weeks subsequent to the commencement of the 2013 audit. We recommend that the University reconciles its Grants and Contracts accounts on a monthly basis and that these reconciliations are forwarded to the Controller's Office upon completion to allow for a timely financial statement close. These monthly reconciliations should also include the evaluation of the aging of such receivables as this can further assist the University in detecting invalid receivables in a more timely fashion.

Management Response:

We will modify our procedures as well as existing controls over state appropriation to prevent duplicative recognition of revenues. We have adjusted the configuration within the respective banner forms for state appropriated accounts created this year so that duplicate recognition will not take place. Older accounts will be modified as well to eliminate the duplication of revenue recognition.

The Office of Grants and Contracts will prepare monthly reconciliation and submit a copy to Controller's Office on a timely basis. The collaborative effort with Controller's Office will address timely resolution of reconciling items and other issues affecting grants and contracts account balances.

Dual Employment

In testing a sample of employees that participated and were paid for dual employment during fiscal 2013, we noted the following:

- Per the University's policies, all Dual Employment Form P-12's are required to have the approval from the applicable department vice president, the Office of Human Resources Management, and the Vice President of Finance. In addition, if the dual employment expenditure was funded with federal dollars, the Form P-12 is also required to be approved by the Office of Sponsored Programs.
    - For 1 dual employment forms selected for testing that were paid with federal funds, the approval from the Office of Sponsored Programs was not obtained as required by the University's policies
    - For 9 dual employment forms selected for testing, one or more approval signatures were not obtained until subsequent to the start date of the dual employment specified on the Form P-12. For 15 dual employment forms selected for testing, one or more approval signatures were not dated on the Form P-12 as required.
- For the sample of dual employments selected, we selected pay period 24 for testing noting that 1 employee charged and was paid full dual employment during this pay period which included 6 holidays.
- For 1 of the dual employment samples, we noted that the employee's dual employment responsibilities mirrored that of the employee's primary job responsibilities, which not in compliance with the University's dual employment policies and procedures.
- Dual employment funded with federal dollars is required to be supported with after-the-fact certifications of the time work by the Office of Sponsored Programs. For 12 dual employment samples which were funded with federal funds, we noted that these certifications were not being completed consistently. Specifically, for each of these 12 dual employment samples, one or more of the following were noted as it pertains to the after-the-fact certifications:
    - Approval was not obtained within 7 days after month end of the period duties were performed
    - Approvals dates were not filled out on the certification form
    - Employee's position was not filled out on the certification form
    - Hire date was not filled out on the certification form
    - Percentage of time spent was not filled out on the certification form
    - Activity numbers was not filled on the certification form
    - Activity numbers filled out on the certification form did not match supporting documentation provided
    - Forms were not prepared for all pay periods in which dual employment was charged to the federal grant
- No time sheets were submitted for any of the samples selected for any pay periods (69 total pay periods were selected for testing) during fiscal 2013 to substantiate that the time was worked and that the work performed for dual employment purposes did not overlap with the employee's primary occupation.

We recommend that the University design and implement internal controls in place to ensure that all Form P-12's are approved by the required personnel including approvals from the Office of Sponsored Programs if the time is charged to a federal or state grant; that all the approvals are obtained prior to the state date of the dual employment; that the approvals are dated as required by the Form P-12, that dual employment is not charged on University recognized holidays, that dual employment is only approved and paid for work that outside of the employee's primary job responsibilities, and that after-the-fact certifications are filled out completely, accurately and timely. Additionally, we recommend that the University design and implement internal controls that would require all dual employees to submit time sheets each pay period; that the time sheets would require the employee to state the specific hours of the day worked; that the time sheet includes all time worked on the employee's primary occupation as well as for dual employment; and that the time sheet is approved by the appropriate supervisor prior to the employee's wages being processed for payment.

Management Response:

Human Resources Staff currently reviews all dual employment forms when they are received. Forms are returned, along with an explanatory memorandum, to departments when they do not meet the guidelines for dual employment. We will monitor the forms closer to ensure that all required signatures and dates are on the forms. The dual employment policy states: "All dual employment situations must be approved by the appropriate Vice President (or applicable Division Head), Office of Human Resource Management and the Vice President of Finance prior to any service being rendered." We will send out an email reminding Managers and Directors to adhere to this section of the policy and submit dual employment request in a timely manner. While dual employment payment was paid during a holiday period, the time worked was not during the holidays. Effective immediately, we will send out a directive letting all employees receiving dual employment payment know that a timesheet is required.

Control Deficiencies

We believe the following deficiencies constitute control deficiencies:

Student Transaction Summary Reports

During our procedures over the University's student accounts receivable, we noted that the University's student account information system is not able to generate Student Transaction Summary reports ("STS Reports") as of a specific date. Rather the information system is configured to produce reports only as of the date the STS Reports are run. This results in the University not having the ability to easily access historical information of its students as of a specific date and thus has to manually reconcile the student's account from the date the STS Report date is run back to the period end date balances. We recommend that the University configure its system so that the STS Reports can be automatically run as of a specific date. If the system is not capable of being configured in this manner, we recommend that the University runs a complete system report of STS Reports as of the period end date so that such information is readily available when needed.

Management Response:

The Banner job process, TSRSSUM (Student Tran Summary Report) has parameters that allow the report to be run as of a specific date. Reports can be run as of specific dates, monthly for example, and retained and available when needed. There are transactions, housing for example, that have effective dates that may differ from the transaction date.

This means that it is possible that a STS Report run on January 31, 2014 could produce different results than a STS Report run of February 28, 2014 with an as of date of January 31, 2014.

Employee Human Resource Files

During our procedures over payroll expenses and related payroll accruals, we noted that the University does not appear to add formal documentation into the employee files for general University wide raises (for example a flat 3% pay raise for all University employees). As a result, in certain instances, there is no formal documentation within an employee's file that supports the approval of an employee's annual pay raise. Though we noted that the University paid the amounts stated in the payroll systems, for certain cases we were not able to trace the current salaries in the payroll system back to the employee's original salary approval (the letter that is signed approved at the time the employee is hired) as there was not a formal trail of annual pay raises included in the employees files. The absence of such formal documentation exposes the University to the risk of unapproved annual raises having been input into the payroll system and in turn being paid to the employees. We recommend that the University adds formal documentation of the approval of an employee's raise to each employee's file annually. Additionally, all such forms should be maintained throughout the duration of the employee's employment with the University, which would allow the University to be able to trace an employee's current salary back to the originally approved salary with formal documentation.

Management Response:

The general increases are administered as mandated by the State Of South Carolina. The Budget and Control Board Office of Human Resources (Columbia) applies the increases to each employee record and generates a master updated listing of employees' salary. SCSU HR Staff updates our Banner System accordingly. The Auditors were given a printout from the OHR System showing the employee's pay history. Effective with the next General Increase, Human Resources will include documentation of the approved raise in each employee file.

Student Accounts Receivable

During our procedures over the allowance for doubtful student accounts receivable, we noted that the University's allowance balance was reasonable and conservative as of June 30, 2013. However, it was noted that though gross student accounts receivable decreased by approximately $950,000 and 22% from June 30, 2012 to June 30, 2013, the allowance for doubtful accounts increased by approximately $113,000 and 6% during this same period. This resulted in the allowance for doubtful accounts as a percentage of gross student accounts receivable increasing from 43% at June 30, 2012 to 59% at June 30, 2013. This increase was primarily attributable to more individual accounts having been outstanding longer as of June 30, 2013 as compared to June 30, 2012. In an institution of higher education setting, this trend can be attributable to a number of factors, including, but not limited to, the overall collection efforts of the institution as well as students with outstanding balances being allowed to reenroll at the institution, obtain transcripts, and/or graduate. We recommend that management investigates what the root cause of this trend was for the University and that the University enhances its internal controls in this area to assist in its collection of outstanding balances as well as the reduction of the allowance for doubtful accounts as a percentage of gross student accounts receivable.

Management Response:

We agreed to auditors' recommendation. We will investigate the root cause of the collection problem and will formulate strategic solutions to improve collection efficiency without sacrificing enrolment.

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This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization, and the State of South Carolina and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation from your staff that our personnel received during the audit of the University's financial statements.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

APPENDIX C

WSSB Radio Station Audit - Management Letter Comments

BDO

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January 27, 2014

Management and Board of Trustees
WSSB Radio Station, a Department of South Carolina State University

In planning and performing our audit of the financial statements of the business-type activities of WSSB Radio Station ("WSSB"), a department of South Carolina State University (the "University"), as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered WSSB's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WSSB's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be control deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Significant Deficiencies

We consider the following deficiency to be a significant deficiency in internal control:

Financial Statement Close Process

In tying the amounts per the 2013 financial statements to the various supporting documentation obtained during our audit procedures, we noted that the process of accumulating all information needed for the WSSB financial statements is not centralized, is highly dependent on manual inputs, and that the detailed level of information accumulated is not formally reviewed/approved by someone other than the preparer. Specifically, we noted the following:

a) Certain financial information is manually collected from various University departments as well as from the South Carolina State University Foundation, Inc. (the "Foundation"). Additionally, as pertains to transactions from the Foundation, WSSB gathers the majority of this financial information after yearend rather than obtaining and reconciling it on a monthly basis.

b) The portion of the WSSB balances that are on the University's general ledger are spread across multiple organizational codes in addition to multiple fund codes with the general ledger system, rather than being isolated into one auxiliary fund that represents the assets, liabilities, net position and transactions solely of WSSB. Thus to isolate the portions of the WSSB balances that are within the various organizations and fund codes of the University's general ledger, management is highly dependent on running extraction query reports as opposed to being able to systematically generate a standalone WSSB trial balance.

c) To prepare the trial balance equivalent as well as the financial statements of the WSSB, management utilizes Excel and manually inputs the information summarized in items a) and b) above. We also noted that the Excel file used to compile this information is not reviewed by someone other than the preparer to ensure that it is accurate and complete.

Given the above information, the risk of completeness and accuracy of the data input into the financial statements is increased. To reduce this, we recommend that WSSB enhance its internal controls over its financial reporting to centralize the process of collecting the various data needed to compile them. We also recommend that a new fund or fund equivalent is created to better isolate WSSB's activity within the University's general ledger system which would eliminate/reduce the need for top side entries in the preparation of its financial statements and allow management to systematically generate a complete population of journal entries that solely represent the transactions of WSSB. Additionally, recommend that WSSB designs and implements internal controls that would allow WSSB to gather and reconcile transactions with the Foundation on a monthly basis. Lastly, we recommend that the accumulation of the financial data of WSSB be reviewed by someone other than the preparer.

Management Response:

We are planning to create a separate Auxiliary Fund for WSSB effective next fiscal year (FY'2013-2014). All WSSB revenues and expenses will be centralized, processed and recorded in one Fund. The SCSU Foundation will continue to orchestrate and execute private fundraising on behalf for the WSSB and will remit this funding to the University on a periodic basis.

Disbursements to the South Carolina State University Foundation

During our audit procedures we noted that WSSB disbursed money to the South Carolina University Foundation that were used to fund WSSB expenditures. As these funds were expended directly by the Foundation, WSSB did not have direct visibility or control over these funds to ensure that these amounts were processed and approved to the University's standards which are in accordance with the standards of the State of South Carolina. We recommend that WSSB retain all such WSSB funds in-house with the University rather than disbursing funds to the Foundation which would allow WSSB to process the approval and payment of expenditures of its funds using the internal control standards of the University.

Management Response:

We agreed to implement auditors' recommendation effective fiscal year FY2013-2014.

******

This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization, and the State of South Carolina and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation from your staff that our personnel received during our procedures.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

APPENDIX D

NCAA Agreed-Upon Procedures - Management Letter Comments

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January 14, 2014

Management and Board of Trustees
South Carolina State University

During the course of our audit our agreed-upon procedures defined by the National Collegiate Athletic Association (the "NCAA") on the statement of revenues and expenses (the "Statement") of Intercollegiate Athletic Program (the "Program") of the South Carolina State University (the "University") for the year ended June 30, 2013, we observed the University's significant accounting policies and procedures and certain business, financial, and administrative practices as it pertained to the Program.

In planning and performing our agreed-upon procedures on the Statement of the, in accordance with the attestation standards established by the American Institute of Certified Accountants, we considered the University's internal control over the Statement in the execution of the our agreed-upon procedures for the purpose of reporting the results of the procedures we performed, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over the Statement or the Program. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over the Statement or the Program.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

As a result of our observations, we suggest that you consider the following:

Statement of Revenues and Expenses

In tying the revenues and expenses per the Statement for the year ended June 30, 2013 to the various supporting documentation, we noted that the process of accumulating all information needed for the Statement is not centralized. In preparing the Statement, the data has to be manually collected from the various University departments (Athletics, Payroll, Purchasing, Finance, etc.) as well as from the South Carolina State University Foundation, Inc. (the "Foundation"). We also noted that the Program revenues and expenses on the University's general ledger are spread across multiple organizational codes under the Education and General fund rather than being isolated into one auxiliary fund. As a result, to compile details of the various revenues and expenses, the University has to manually select components of various funds to sum up the amounts needed to draft the Statement. As a result, the risk of completeness and accuracy of the data inputted into the Statement is increased. Furthermore, under the present configuration, the University is not able to track the cumulative deficit or fund balance of the Program on a real time basis and does not know what this figure is until the Statement is compiled after year end. As a result, the total support of approximately $6.8 million received by the Program directly from the University for the year ended June 30, 2013 was not materially known until the Statement was compiled.

To reduce this risk, we recommend that the University enhances its internal controls over the Statement to centralize the process of collecting the various data needed to compile the Statement. Additionally, we recommend that a new fund or fund equivalent is created to better isolate the revenues and expenses within the University's general ledger system. For additional recommendations as they pertain to the Foundation related portion of the above observation, refer to our recommendation to the next observation listed below.

Management Response:

We agree with your recommendation. We are planning to create a separate Auxiliary Fund for Athletics effective next fiscal year (FY'2014-2015). All athletic revenues and expenses will be centralized, processed and recorded in one Fund. The SCSU Foundation will continue to orchestrate and execute private fundraising on behalf for the Athletics Department and will remit this funding to the University on a periodic basis.

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This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization, and the State of South Carolina and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation from your staff that our personnel received during our procedures.

Very truly yours,

BDO USA, LLP

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APPENDIX E

Nonprofit Standard

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THE NEWSLETTER OF THE BDO NONPROFIT & EDUCATION PRACTICE

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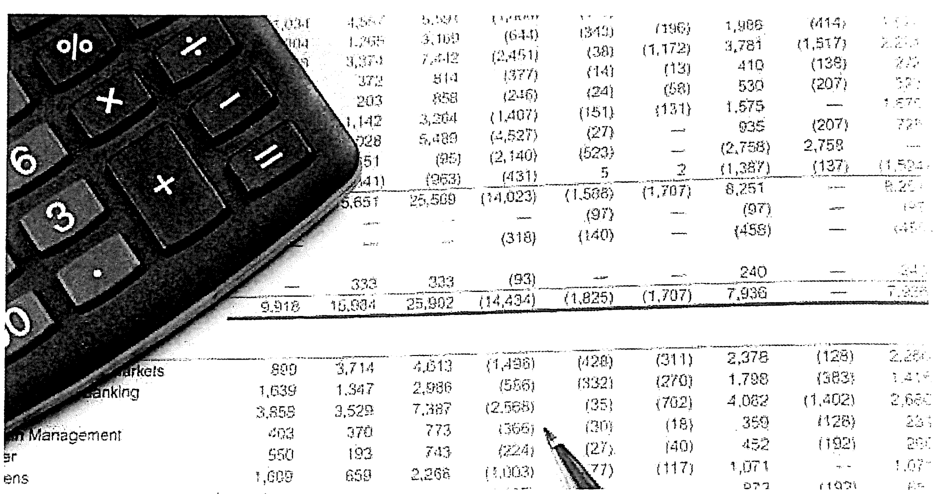

CONTENTS

FASB BOARD PROPOSES CHANGES TO NONPROFIT CASH FLOW STATEMENT

By Laurie Arena De Armond, CPA

The Financial Accounting Standards Board (FASB or the Board) met on Oct. 23, 2013, to continue its discussions related to the ongoing project to re-examine existing standards for financial statement presentation by nonprofit organizations. During this meeting the discussion was focused on the presentation and classification issues related to the cash flow statement.

The tentative decisions made by the Board at this meeting are summarized below.

Presentation Using the Direct Method

- Require that nonprofit organizations use the direct method of reporting cash flows provided by/used in operating activities. However, the current requirement to show the reconciliation of the change in net assets to the net cash flow from operating activities using the indirect method would be removed.

The Board members felt that the direct method of cash flow statement reporting is a more understandable and informative presentation that would provide more pertinent information to the users of the financial statements.

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IG Review 0327

▶CONTINUED FROM PAGE 1

NONPROFIT CASH FLOW STATEMENT

Classification of Items Within the Statement

- Revise how the items detailed within the statement of cash flows are classified as follows:

	Current Presentation	Proposed Presentation
Cash gifts received with donor-imposed restrictions stating that the organization use the funds to purchase, construct or otherwise acquire long-lived assets for operating purposes	Inflows from financing activities	Inflows from operating activities
Cash payments to purchase, construct or otherwise acquire long-lived assets for operating purposes	Outflows from investing activities	Outflows from operating activities
Cash dividends and interest income	Inflows from operating activities	Inflows from investing activities
Cash payment of interest expense	Outflows from operating activities	Outflows from financing activities

The Board discussed the need for these changes to the definitions of cash flows from operating, investing and financing activities as a result of the tentative definition of the intermediate measure of operations that they developed at an earlier meeting. (See discussion in the Fall 2013 issue of the *Nonprofit Standard* in the article titled "Update on the FASB Not-for-Profit Financial Reporting Package" by Laurie De Armond.)

The Not-for-Profit Advisory Committee members are interested in achieving alignment between the net cash provided by operating activities and the intermediate measure of operations that is presented in the statement of activities. At this point the final determination of what this intermediate measure of operations will ultimately be and whether it will be required or recommended is still in discussion as part of this project.

These tentative decisions will be considered in the ongoing discussions and the development of a proposal for public comment on the full spectrum of the proposed changes to the financial statements of nonprofit organizations as a result of this project. Based on FASB's technical plan, an exposure draft is supposed to be issued in the first half of 2014 that will reflect all the proposals related to the presentation of nonprofit organization financial statements as a result of this project.

For more information on earlier FASB discussions and other tentative decisions made by the Board related to this project, please see the Fall 2013 issue of the *Nonprofit Standard* as noted above.

For more information, contact Laurie Arena De Armond, partner, at ldearmond@bdo.com.

IRS RELEASES DRAFT 2013 FORM 990 INSTRUCTIONS

By R. Michael Sorrells, CPA

In late September, the Internal Revenue Service (IRS) released a draft of the 2013 Form 990 instructions, as well as drafts of the 990 schedules and schedule instructions.

The most significant change in the instructions relates to Schedule B (Schedule of Contributors) and Schedule A (Public Charity Status and Public Support). Organizations that qualify as publicly supported under the Section 509(a)(1) test generally receive at least one-third of their revenue from gifts, grants and other contributions and should fill out Schedule A, Part II. Section 509(a)(1) organizations are allowed to limit their reporting on Schedule B to only those donors whose donations equaled the greater of either $5,000 or 2 percent of the organization's total contributions and grants. Organizations who do not qualify under 509(a)(1) are required to use the general rule, which requires disclosure of all donations of $5,000 or more. Many organizations that are not 509(a)(1) organizations but otherwise qualify under this support test have followed the 2 percent rule on Schedule B without completing the Part II support test. Now, the draft instructions specify that if an organization checks the box on Schedule B to be able to use the 2 percent rule, it must complete the Schedule A, Part II support test to prove that it are eligible to use this rule. For example, consider a charity that is originally classified under 509(a)(2) because of its exempt function income. If this charity receives sufficient grants and contributions to qualify under 509(a)(1), it will have to complete the Schedule A, Part II support test in order to follow the 2 percent rule for Schedule B. This will not, however, change its public charity status with the IRS (as provided on the organization's determination letter). It's important to note that the IRS allows organizations to be publicly supported under more than one test.

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FORM 990 INSTRUCTIONS

Other changes include the following clarifications and explanations:

- A short year Form 990 cannot be e-filed unless it is designated as an initial or final return with the appropriate box checked in the 990 heading, page 1, item B.
- A 990-N (electronic postcard) filer can only report an accounting period change on Form 990, 990-EZ or Form 1128.
- Organizations that change accounting methods must report any Section 481(a) adjustment in Parts VIII through XI of Form 990, as well as in Schedule D, Parts XI and XII, as applicable.
- Listing of documentation that must be attached to Form 990 to support:
  - A name change by the organization
  - An organizational termination, dissolution, merger or exemption revocation
- Clarification as to when an organization must answer "yes" to report that it became aware of an excess benefit transaction that had occurred in a prior year (if the transaction had not been previously reported)
- Directors' compensation for non-director independent contractor services must be reported on Part VII, Section A
- Compensation from a management company to one of the organization's officers, directors, key employees or highest compensated employees is generally not reportable on Part VII, Section A
- Discounts on services cannot be reported as contributions
- Instructions on how cost of expense reimbursements and expense payments to contractors should be reported on Part IX, the statement of functional expenses
- Glossary: there are a few new definitions and clarifications included
- Schedule H (hospitals): a few changes are noted on the form and there are additional options with regard to the Community Health Needs Assessment (CHNA) required on this schedule, including an option for a hospital to make its CHNA widely available by posting it to "another website"

Keep in mind that these changes are currently only in draft form, so there may be additional changes before the Form 990, the 990 schedules and the instructions are finalized. Do you have thoughts concerning these new draft instructions? If you wish to relay your suggestions directly to the IRS, comments may be made on the IRS site here.

For more information, contact Michael Sorrells, national director, Nonprofit Tax Services, at msorrells@bdo.com.

NONPROFIT FACTS: *Did you know...*

- Today, nonprofit sales of goods and services to households in the U.S. amount to almost $1 trillion a year - more than 5 percent of gross domestic product.
- The Nonprofit Governance Index found that 45 percent of nonprofit board members were women, compared with roughly 17 percent on Fortune 500 boards.
- Organizations in this year's NPT 100 reported total revenue of $70.067 billion, up 3.19 percent from last year, while public support was up 5.6 percent to $34.931 billion.
- Prices in the U.S. economy went up 1.7 percent last year. College tuition rates rose 2.9 percent.
- The cost of higher education, as measured by private and public tuition, has risen at rates higher than inflation, roughly 4 percent per year for nonprofit private tuition.
- Many taxpayers age 70½ or older can transfer as much as $100,000 a year directly from their IRAs to qualified charities without having to count any of that transfer as income. The transfers count toward the taxpayer's required minimum distribution for the year.
- In August 2013, the unemployment rate for individuals age 25 and older without a high school diploma exceeded 11 percent. Meanwhile, the rate was over 7 percent for high school graduates, compared to only 6.1 percent for individuals with some college or an associate's degree and just 3.5 percent for those with a bachelor's degree.
- Although the U.K. is one of the more generous nations in Europe, just 28 percent of higher-income taxpayers make charitable donations, compared with about 98 percent in the U.S.
- The biggest hit to charities' bottom lines in 2012 was a continued decline in government support, down 5.6 percent to $10.34 billion, but also investment income, which dipped 6.26 percent to $2.633 billion after a nice rebound in 2011.
- Fearing changes in tax policy, contributors poured money into donor-advised funds in 2012, helping assets in those accounts climb to nearly $45.4 billion that year, according to a study released by the National Philanthropic Trust. Contributions to the funds, which allow people to set up charitable accounts, receive an immediate tax deduction and name beneficiaries later, increased 34.6 percent to top $13.7 billion.

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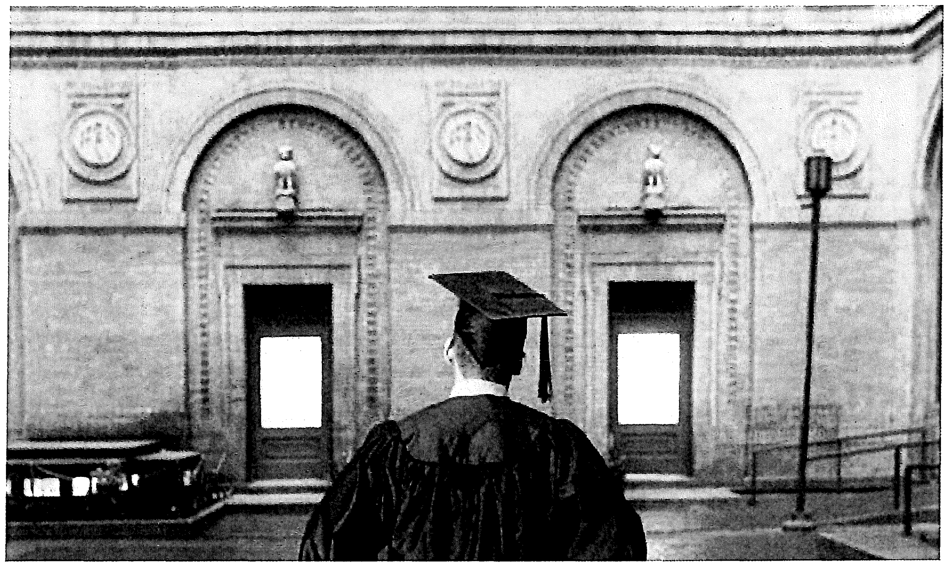
A CRISIS OF CONFIDENCE – HIGHER EDUCATION AT A CROSSROADS

By Tom Gorman, CPA

In the last issue of the *Nonprofit Standard*, I highlighted a few of the key points President Obama's proposed higher education scorecard may include. Since then, Arne Duncan, Secretary of Education, has embarked on a cross-country tour of town hall meetings to gather input on the scorecard and address the numerous concerns that have been raised. While many within higher education feel they can police themselves and thus obviate the need for a new rating system, others feel the system will change only when external pressures force change.



▶A FEW BRIGHT SPOTS

The College Board recently issued a report on the rate of published (read "sticker price") tuition increases in higher education. The report showed that in-state tuition at public four-year institutions rose 2.9 percent, the slowest rate of increase in nearly 30 years. On the private four-year side the sticker price rose 3.8 percent, about in line with recent years.

While some point to this moderation in the rate of increase as a positive sign, the story gets a little more complicated when we look at net tuition. Here we see that net tuition continues to increase at rates well above the rate of inflation. As the amount of federal aid levels off after more than six years of significant increases, colleges and universities are not filling the gap with institutional funds.

While this moderation in the rate of increase is a welcome sign for many, it is likely too little too late to derail the growing pressure to rein in tuition.

▶THE FIGHT FOR STUDENTS – BUILD IT AND WILL THEY COME?

As noted in my recent industry update article, enrollment challenges persist in many parts of the country and in many segments. It seems the response to these enrollment challenges is the need to build new and better facilities to attract students. Perhaps fueled in part by the improving economy and donor support, a growing number of schools have announced ambitious plans to construct new square footage. Unlike what we saw in the past decade when student centers were all the rage, this time it looks like science and technology are getting the boost.

But this strategy is not without its own risks. College statements of financial position continue to pile on significant amounts of debt. And since many schools have not sufficiently diversified their revenue streams, the need to fill seats and generate tuition revenue remains the primary driver.

▶YET ANOTHER RATING SYSTEM

For many families, the college search process begins by reviewing one of the widely known and recognized college rating sources. These lists rank schools based on any number of criteria; selectivity is one of those. Yet we have seen several high-profile cases in recent years where institutions have admitted to anomalies in the data they submit to the companies that compile the lists. It turns out that there are few, if any, rules over how the information is gathered. In some cases there is no review of the information submitted.

▶GOVERNANCE MATTERS

It is understandable then why the president and other regulators are pressing for a new rating system. And it is almost a certainty that whatever metrics ultimately become part of the rating system there will be specific rules over how the information is prepared and submitted. Just like the "new" Form 990 (Okay, six years in, I think we can drop the word new!) introduced nonprofits to a whole range of governance oversight, it is likely going to be the same with the new rating system. Boards of trustees should take heed now over the entire range of external reporting that happens at their school.

While the financial activity is most often subject to an audit, and most audit committees receive reports on financial activity, the same is not always the case with non-financial reporting. Boards should dust off their governance, risk and compliance plans and make sure they consider the broadening scope of compliance. As I had said before – we don't know exactly what the new regulations will look like, but it is almost certain that regulations will increase.

For more information, contact Tom Gorman, director, at tgorman@bdo.com.

▶Read more

SIGNIFICANT DIVERSION OF ASSETS

By Laura Kalick, JD, LLM

Recent reports regarding the significant diversion of assets by nonprofit organizations has caused federal and state officials to launch investigations as to what this actually means. The revised Form 990 Part VI, Section A (Governing Body and Management) line 5 asks: Did the organization become aware during the year of a significant diversion of the organization's assets? The instructions to Form 990 expound upon how the question should be answered. As you may be aware, the Governing Body and Management section was very controversial when added to the Form 990 during its revision. Segments of the public argued that only questions authorized by the statute should be reported on the form. The Internal Revenue Service (IRS) responded saying that a well-governed organization was more likely to be tax-compliant and, therefore, in order to insure that taxes are properly collected, they had the authority to ask the questions. Many in the nonprofit sector agreed that the transparency provided by the new form allowed the public to gain information that was necessary, especially in the case of a donor who was considering making a gift to a charity.

In April 2012 the IRS announced the results of a study it had done to see if a well-governed organization was more likely to be tax-compliant and stated they had found that the greatest correlation between "good governance" practices and tax compliance was where the board of directors was significantly involved in setting compensation and also where organizations had procedures in place for the proper use of charitable assets. At the same meeting, the IRS announced a new audit program whereby the IRS would audit organizations that had indicated there had been a significant diversion of assets. The IRS looked at:

> The tax filings and publicly available information on the 285 organizations that reported a significant diversion of assets in 2009 and that initial research found "roughly $170 million in significant diversions was identified" and 82 cases resulted in civil or criminal charges against the responsible party. These are charges that were brought by the organizations involved, or by local authorities, who were outraged by the activity. They are not IRS charges. Forty-seven individuals were incarcerated or served probation for the diversion of the assets. Again, this did not arise from IRS actions. In nine cases restitution was paid in full; in 11 cases there was partial restitution.

See http://www.irs.gov/pub/irs-tege/georgetown_04192011.pdf for more details.

Here are the details of what is supposed to be reported. "Significant" means the gross value of all diversions (not taking into account restitution, insurance or similar recoveries) discovered during the organization's tax year to the extent they exceed the lesser of:

(1) 5 percent of the organization's gross receipts for its tax year,
(2) 5 percent of the organization's total assets as of the end of its tax year, or
(3) $250,000.

If the organization became aware of the diversion during the tax year, even though the diversion occurred in another year, the diversion is supposed to be reported. The organization is supposed to report on Schedule O the nature of the diversion, the amounts of property involved, corrective actions taken to address the matter and other pertinent circumstances.

A diversion of assets includes theft, embezzlement or any unauthorized use of the organization's assets and can involve any person, whether or not an officer, director, key employee or independent contractor. So it could also include a grantee diverting grant funds or an investment advisor. Diversions of assets do not include transactions at fair market value. For example, if an exempt organization sets up a taxable subsidiary and takes back the stock or enters into a partnership agreement where the exempt organization gets a quid pro quo interest, these are not a diversion of assets to be reported.

The IRS instructions to Form 990 note that, "A diversion of assets can in some cases be inurement of the organization's net earnings. In the case of section 501(c)(3), 501(c)(4), and 501(c)(29) organizations, it also can be an **excess benefit transaction** taxable under section 4958 and reportable on Schedule L (Form 990 or 990-EZ)." So this means that if it is found that a Disqualified Person, i.e., someone who can substantially influence the organization, diverts assets for his/her own behalf, in addition to any other adverse actions that could result, that person could be subject to a 25 percent tax on the excess amount and a 200 percent tax if the transaction is not corrected by returning it with interest.

For more information, contact Laura Kalick, national director, Nonprofit Tax Consulting, at lkalick@bdo.com.

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FAC AND DCF UPDATE

Federal Audit Clearinghouse

Due to the federal government shutdown the Federal Audit Clearinghouse's (FAC) projected rollout of its new updated system was delayed from its original projected date and occurred on Nov. 15. As noted in our Fall 2013 issue of the *Nonprofit Standard*, there are several changes to the FAC system. Now that the system is up and running, each user should create his/her own account using one email address. Access to the site with one shared password and report ID by multiple users is no longer permitted. If your email address is the same as in the past you will be able to access your previous submissions from 2008 through 2012. The certifying official must be identified as such in order to complete the final certification of the data collection form. The FAC has also improved the template upload options allowing for an easier upload of large amounts of data.

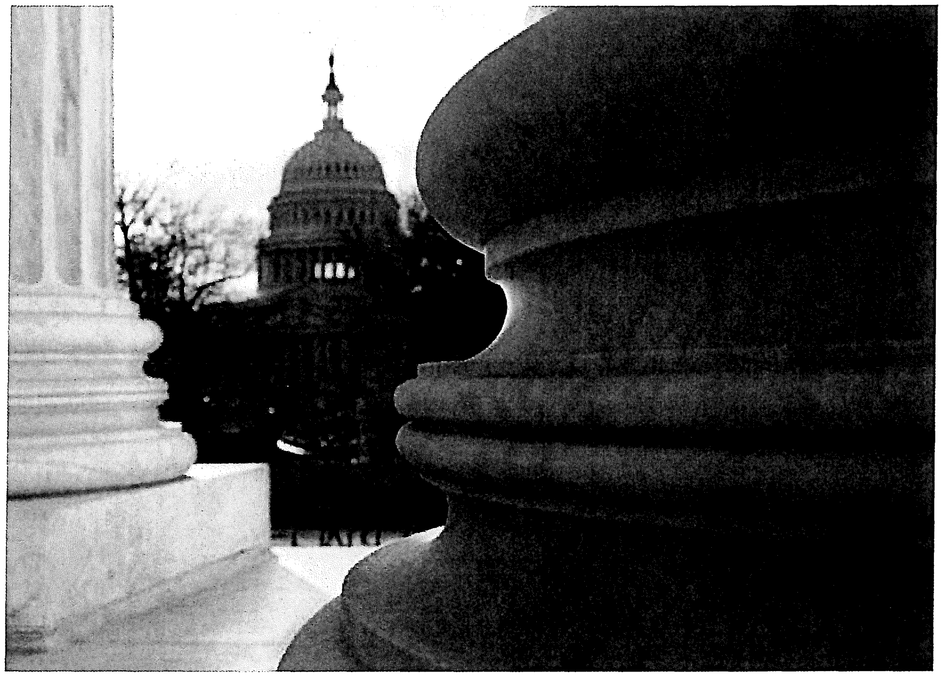
Data Collection Form

The 2013 data collection form (DCF) was issued in the Federal Register (FR) for a final 30-day comment period on Nov. 19. The FR notice is intended to allow the public a final opportunity to review and comment on the changes made by the Office of Management and Budget (OMB) in response to the previous round of public comments received on the DCF. Comments on the new DCF are due on Dec. 19. You can find the draft DCF and instructions under "Recent News" at www.whitehouse.gov/omb/financial_default.

Since the 2013 DCF is still not available for use the OMB has granted an extension until Jan. 31, 2014, for filing the DCF for a single audit for a fiscal period ending in 2013 where the DCF is due before the final form is available. This extension is automatic and there is no approval required. The extension applies only to single audits for fiscal periods ending in 2013. This 2013 DCF submission waiver language is posted on the FAC website.

ARE YOU PREPARED FOR THE OMB SUPERCIRCULAR?

By Eric Sobota



THE FEDERAL GOVERNMENT PLACES MANY REQUIREMENTS ON ENTITIES SEEKING GOVERNMENT FUNDING, WHETHER THROUGH GRANTS OR BY CONTRACT.

For grant recipients, the regulatory landscape is disparate and complex, with numerous rules and guidelines governing the accounting and administrative functions for a variety of recipient categories. Hospitals are governed by a different set of cost principles than universities, and state and local agencies are subject to a third. Anytime one requirement changes within one category, the process needs to be reassessed from the beginning. This system, while inelegant, has gained stability through usage. The marketplace, by necessity, has adapted to this complicated, inconsistent regime. Grant recipients have trained their compliance professionals and other staff to their own particular stovepipe of rules and practices. Entities that meet multiple definitions and government offices that administer multiple types of grants have gained expertise over time in determining which requirements apply to which category.

Now, change is on the way in the form of an omnibus Office of Management and Budget (OMB) circular — colloquially referred to as the "Supercircular" that will consolidate this constellation of regulations and (hopefully) provide consistent guidance for both the recipients and issuers of federal grants. OMB hopes to publish the final rule, accounting for any comments, by the end of 2013, with the rule fully implemented for new awards in "mid-2014." The new requirements will apply to continuing awards as of the start of the 2014-2015 fiscal year on Oct. 1, 2014. With the advent of this new guidance, grant recipients and administrators must carefully re-evaluate their grant practices to determine what is likely to remain the same and what may change. Below, we outline just a few of the major changes on the horizon:

▶Read more

▶CONTINUED FROM PAGE 6

SUPERCIRCULAR

Reforms to Procurement Standards

For some recipients, these reforms may represent a significant increase in the administrative burden of awarding contracts to vendors who are essential for their grant operations. The Supercircular requires a formal, almost Federal Acquisition Regulation (FAR)-like process for ensuring competition, presumably to ensure the most efficient use of grant dollars. The Supercircular also requires recipients to offer disappointed offerors for grant-funded contracts an opportunity to protest the decision to the grantee and, in the case of a violation of federal law, to the awarding agency itself. A robust and effective procurement process will be critical to the success of navigating these new administrative burdens.

Subrecipient Monitoring and Management

The proposed guidance places increased emphasis on assessing and monitoring subrecipients. This, too, will require a rigorous, FAR-like approach similar to the subcontractor monitoring practices currently employed by for-profit organizations.

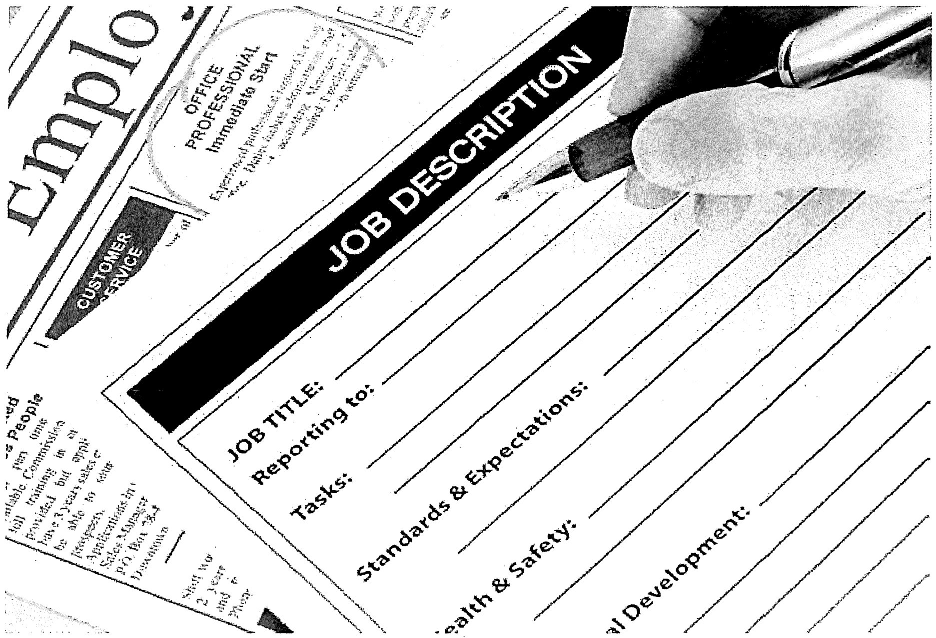
New Choices for the Recovery of Indirect Costs

For recipients who strategically position themselves, these choices may offer significant advantages. Notwithstanding the current method of negotiating indirect rates, higher education institutions and nonprofit organizations may now be able to use negotiated lump sums for indirect expenses, predetermined multiyear indirect rates, negotiated fixed rates with carryforward provisions, and even fixed rates by award. Determining which solutions work best for your organization *now* will help you quickly incorporate this new approach into your estimating process as soon as the final rule is issued.

For more information, contact Eric Sobota, director with BDO's Government Contracting practice, at esobota@bdo.com.

EXECUTIVE EMPLOYMENT AGREEMENTS

By Mike Conover



"Don't you have some standard boilerplate we could use? We don't want to spend a lot of time on this."

With increasing frequency, I am encountering client situations involving employment agreements. They are becoming more prevalent among all sorts of organizations, including nonprofits, and are most commonly used for the executive director/chief executive officer positions and, in some instances, some other top level positions such as chief operating officer and chief financial officer. It seems newly hired and long-tenured individuals both want clarity around the arrangements for their employment. Organizations sometimes view providing the agreement as something "given to" or "done for" the benefit of the individual, rather than an opportunity for employer clarity and protection.

In light of the importance of an employment agreement, it is surprising to discover that an employer would ask for some "boilerplate" form or allow it to simply be the list of bundled items negotiated in the course of wooing the individual. It is also important to note that this is a topic that is important to the Internal Revenue Service (IRS) as noted in several sections of Form 990 Schedule J that specifically ask about the use of agreements and several of the provisions they may contain.

Let's spend a few minutes on some employment agreement basics as well as the changing trends in terms of their contents. In addition to typical practices and trends, I will offer some suggestions for determining the best approach for your organization.

The term employment agreement is being used broadly here to include not only formal employment contracts, but also the less formal employment letter. The distinction for our purposes here is the "guaranteed" employment in the contract versus the confirmation of terms in the employment letter.

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EXECUTIVE EMPLOYMENT AGREEMENTS

The standard topics covered in the agreement include a confirmation of key points related to the position in question. Position title, summary of key responsibilities and reporting relationships are typically standard items that are addressed early in the document. In addition, details on compensation arrangements are also spelled out, including: salary, bonus/incentive opportunity, as well as confirmation of participation in the broad benefit plans/coverages maintained by the organization for all employees. Often, the agreement will also contain details of the organization's paid time off (i.e., paid holidays, sick leave and general vacation policy). Finally, for newly hired individuals, this agreement will often detail the terms of the organization's relocation assistance.

Beyond the standard topics described above, there is considerable variation in the additional items they may contain. Despite an increase in the overall prevalence of the agreements themselves, the variety of these additional items, most notably perquisites, has been steadily declining in past years. At one time, it was not unusual to find many different types of special benefits offered to the executive director/chief executive officer. Depending on the type of organization and its size, the list could specify first-class travel, country club membership, cell phone, fax machine, tax preparation services, etc.

Ongoing instances of excessive executive compensation in for-profit and nonprofit organizations alike, as well as increasing public skepticism about executive pay practices in general, have exerted strong pressure on a great many of the personal benefits that were once so typical. The financial crisis and severe economy which followed have led many to question the need and the fairness associated with these practices. Many believe these individuals are highly paid and should be able to pay for their own personal benefits and services rather than have them employer-paid.

Accordingly, the particular arrangements that are specific to the executive director/chief executive officer are now generally limited to: supplemental retirement coverages; extra vacation and automobile/automobile expense allowance (if offered). Of course, this may vary somewhat by type of nonprofit. For example, educational institutions will often include provisions related to campus housing or housing allowances.

Employment contracts should also include information about: the period of employment; contract renewal and related notifications; termination and severance arrangements; and any applicable post-retirement or post-employment obligations. When offered, most contracts tend to be two or three years in duration and contain provisions for renewal or extension in one-year increments, subject to cancellation by either party with notice. When severance protection is offered, it is generally for 12 months or less, with longer periods of time becoming increasingly rare.

Knowing there are many different types and sizes of nonprofit organizations, the information offered here is necessarily quite general. However, I don't want to leave you with the impression that simply including the list of topics covered here is all that is necessary to produce an agreement that is suitable for your organization. On the contrary, I want to impress upon you the importance of ensuring that any agreement developed for your organization is tailored to its needs, not some boilerplate or template.

There are excellent survey sources that can help an organization determine a great deal about the prevalence of employment agreements among comparable organizations as well as the types of provisions that are found in them. These survey sources can be extremely helpful in assessing individual items considered for inclusion in an agreement as well as the overall reasonableness of the entire employment agreement. Organizations would be well-advised to secure information and advice concerning competitive practices in comparable organizations in order to be well-informed about competitive practices. Simply relying on the executive recruiter's negotiation of candidate requirements or an agreement borrowed from elsewhere may result in an agreement that becomes a liability for the organization and its governing body.

For more information, contact Michael Conover, senior director, Specialized Tax Services – Global Employer Services, at wconover@bdo.com.

▶Read more

TOP CHALLENGES FACING NONPROFIT SKILLED NURSING FACILITIES

By Mike Musick

NONPROFIT SKILLED NURSING FACILITIES (SNFs) ARE UNDERGOING A COMPLETE PARADIGM SHIFT.

New reimbursement models, an aging population and changes mandated under the Affordable Care Act have placed tremendous pressure on SNFs. The changing healthcare landscape will require nonprofit SNFs to deliver better outcomes, lower costs and more appropriate access to care. Evolving to these new standards is challenging, so in order to keep their doors open, nonprofit SNFs will need to:

Move toward a model of consumer-driven healthcare.

As consumers become more responsible for paying for their own healthcare, healthcare-related decisions will be increasingly influenced by how much a service costs and what value it provides to the patient. To help patients, their families and caregivers compare nursing facilities more easily, the Centers for Medicare and Medicaid Services (CMS) created the Five Star Quality Rating System. The system gives each nursing facility a quality rating between one and five stars, with five being the highest, based on specific quality measures including staffing patterns. The system represents a clear shift toward a model that recognizes that more consumers are beginning to shop for the best value.

To account for this, nonprofit SNFs will need to engage with patients in new ways, proactively identifying solutions to problems or issues they may face. Innovative strategies such as cost-sharing programs and new technologies that enable patients to interact with healthcare providers and access their healthcare information are at the forefront as the focus on service and overall customer experience brings enormous change to the SNF industry.

Develop new and more efficient operating models.

To succeed in this new environment, nonprofit SNFs will need to develop strategies that will enable them to transform the way care is delivered. They must focus on day-to-day operations to realize gains associated with short-term cost savings opportunities and performance improvements, while also ensuring that their cost structure and operational infrastructure are aligned with their long-term vision.

SNFs will need to improve their data and IT infrastructure.

Leveraging analytics, SNFs can develop adaptive and interactive technology platforms to detect care gaps, manage costs, anticipate and measure consumer needs and expectations, and better manage chronic illness and end-of-life care.

Measure outcomes to inform future practices.

Successful nonprofit SNFs of tomorrow will not look like those of today. Nonprofit SNFs need to identify the sources of poor care and establish improvement goals and measures in order to work toward continuous improvements. Additionally, they must determine their future care models now and begin developing the infrastructure and capabilities required to navigate toward their future state.

What is your organization doing to meet these challenges?

For more information, contact Mike Musick, partner, Healthcare practice at mmusick@bdo.com.

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FASB FELLOW LEE KLUMPP REFLECTS ON BUSY, FRUITFUL FIRST YEAR

"We've really made some good progress on the FASB's Not-for-Profit standard-setting project, even getting a tentative decision on a matter that the board couldn't reach a decision on 20 years ago," says Klumpp. "That's especially gratifying."

When Lee Klumpp accepted a prestigious two-year appointment as a Financial Accounting Standards Board (FASB) fellow (see the Fall 2012 issue of the *Nonprofit Standard* for the article announcing his fellowship), he knew the demands on his time would be substantial. But one year into the fellowship, the Nonprofit auditing and accounting technical director can report that the time has been well-spent with an impressive amount of headway made on key projects.

"We've really made some good progress on the FASB's Not-for-Profit standard-setting project, even getting a tentative decision on a matter that the board couldn't reach a decision on 20 years ago," says Klumpp. "That's especially gratifying." Klumpp continues to work on projects such as leases and accounting for financial instruments. He also interacts with the FASB Not-for-Profit Advisory Council, participating in speaking engagements and submitting articles for publication.

Sharpened skills, expanded network

Through it all, Klumpp says he's sharpened his research, analysis and communication skills, gained a unique insight into the process FASB uses in setting financial standards and even learned a few things about international standard setting. He's also been able to expand his network by working with nonprofit healthcare and community organizations.

Although Klumpp is prohibited from client interaction during his fellowship, the skills and knowledge he'll bring back to the firm will benefit Nonprofit clients, as well as any BDO professionals with nonprofit industry clients or prospects.

Differentiating BDO

Nonprofit & Education industry group leader Bill Eisig says Klumpp's fellowship goes a long way toward positioning BDO as a true thought leader in the industry. "It's very important for us to be recognized by the profession as experts in industries we're targeting," says Eisig. "Lee's exposure to FASB – and FASB's exposure to BDO – build our credentials and reputation with the CPA world and the professional world."

BDO PROFESSIONALS IN THE NEWS

BDO professionals are requested to speak on a regular basis at various conferences due to their recognized experience in the industry. The following is a list of some of the upcoming events where you can hear BDO professionals. In addition to these external venues, BDO offers both live and local seminars, as well as webinars, on such topics as nonprofit tax and accounting updates, international accounting and business issues, and charitable solicitation registration. Please check BDO's website at www.bdo.com for upcoming local events and webinars.

FEBRUARY

Laurie Arena De Armond and **Rebekuh Eley** are speaking at the Illinois CPA Society's 2014 Not-for-Profit Corporate Governance half-day conference on Feb. 5 from 8:30 a.m. to 12:05 p.m. in Chicago, Ill. Laurie and Rebekuh will be presenting the topic "Governance Tax Policies." Then both Laurie and Rebekuh will sit on a six-member panel discussing "Succession Planning Among Executive Management."

MARCH

Mike Sorrells and **Laura Kalick** will be presenting a session entitled "NOL Carryforwards: Is Your School at Risk?" at the University of Texas School of Law's 2014 Higher Education Taxation Institute on Mar. 4 in Austin, TX.

Dick Larkin will be presenting two sessions at the Washington Nonprofit Tax & Legal Conference on March 20 in Crystal City, Va. One session will be on Statement of Position 98-2 and the second session will be an accounting and auditing update.

▶Read more

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BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at www.bdo.com for upcoming local events and webinars.

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People who know Nonprofits, know BDO.

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