



UNIVERSITY OF SOUTH CAROLINA
Financial Statements and Schedules
June 30, 2006
(With Independent Auditors' Report Thereon)

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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October 24, 2006

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
University of South Carolina
Columbia, South Carolina

This report on the financial statements of the University of South Carolina for the fiscal year ended June 30, 2006, was issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb



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Independent Auditors' Report

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying statements of net assets of the business-type activities and the blended and discretely presented component units of the University of South Carolina (the University), a department of the State of South Carolina, as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows, where applicable, thereof for the year then ended, which collectively comprise the University's basic financial statements. 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 University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); University of South Carolina Research Foundation; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the University of South Carolina Research Campus Foundation; the Carolina Piedmont Foundation, Inc.; the Educational Foundation of the University of South Carolina – Lancaster, Inc.; and the Aiken Student Housing Foundation (collectively referred to as "Foundations"). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust and Foundations, are based on the reports 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. The financial statements of the Trust and the Foundations were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University of South Carolina are intended to present the financial position, changes in financial position and, where applicable, the cash flows, of only that portion of the business-type activities and blended and aggregate discretely presented component units 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, 2006, the changes in its financial position or, where applicable, its cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the blended and aggregate discretely presented component units of the University as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2006 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 the 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on accompanying pages 3 thru 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The supplementary information included in the accompanying schedules of non-capital appropriations, state capital appropriations and statement of activities are presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 15, 2006

UNIVERSITY OF SOUTH CAROLINA – Management’s Discussion and Analysis (Unaudited)

Overview of the Financial Statements and Financial Analysis

The University of South Carolina is pleased to present its financial statements for fiscal year 2006. While audited financial statements for fiscal year 2005 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the primary institution – the University of South Carolina – and will not include its blended component unit – the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan. Neither will this discussion include the discretely presented component units – the University of South Carolina’s Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, Research Campus Foundation, the Carolina Piedmont Foundation, the Educational Foundation of the University of South Carolina - Lancaster, and the Aiken Student Housing Foundation.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Colleges and Universities*. The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The University’s net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University’s financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

This discussion and analysis of the University’s financial statements provides an overview of its financial activities for the year.

Summary of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the University. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution’s equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the University’s permanent endowment funds and are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

**UNIVERSITY OF SOUTH CAROLINA – Management’s Discussion and Analysis
(Unaudited)**

Summary of Net Assets				
	<u>2006</u>	<u>2005</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 251,763,485	\$ 255,201,854	\$ (3,438,369)	(1.35%)
Capital Assets, Net	792,760,721	705,636,521	87,124,200	12.35%
Other Assets	<u>57,248,807</u>	<u>53,992,973</u>	<u>3,255,834</u>	6.03
Total Assets	<u>1,101,773,013</u>	<u>1,014,831,348</u>	<u>86,941,665</u>	8.57%
Liabilities				
Current Liabilities	92,657,921	88,705,901	3,952,020	4.46%
Noncurrent Liabilities	<u>270,199,806</u>	<u>267,436,281</u>	<u>2,763,525</u>	1.03%
Total Liabilities	<u>362,857,727</u>	<u>356,142,182</u>	<u>6,715,545</u>	1.89%
Net Assets				
Invested in capital assets, net of related debt	536,832,618	452,227,107	84,605,511	18.71%
Restricted - nonexpendable	17,913,938	14,867,303	3,046,635	20.49%
Restricted - expendable	12,644,555	43,718,637	(31,074,082)	(71.08%)
Unrestricted	<u>171,524,175</u>	<u>147,876,119</u>	<u>23,648,056</u>	15.99%
Total Net Assets	<u>\$ 738,915,286</u>	<u>\$ 658,689,166</u>	<u>\$ 80,226,120</u>	12.18%

- Total Assets of the University increased by \$86.9 million. Capital assets increased \$87.1 million, primarily due to major building gifts and projects completed and in progress. Total cash and cash equivalents decreased \$11.5 million, driven by the increase in expenditures for capital projects.
- The increase in Current Liabilities is attributable to an increase in deferred revenues primarily due to an increase in the 2006 season football ticket sales.
- The \$2.8 million increase in Noncurrent Liabilities is attributable to issuance of long term bonds and notes payable.
- Net Assets of the University increased during the year by \$80.2 million. The increase is driven largely by an \$84.6 million increase in net assets invested in capital assets.

Summary of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public University’s dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

**UNIVERSITY OF SOUTH CAROLINA – Management’s Discussion and Analysis
(Unaudited)**

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital

grants and gifts are considered neither operating nor non-operating revenues and are reported after "Income before other revenues, expenses, gains or losses".

Summary of Revenues, Expenses and Changes in Net Assets	<u>2006</u>	<u>2005</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Operating Revenues:				
Student tuition and fees	\$ 324,653,924	\$ 278,985,272	\$ 45,668,652	16.37%
Less scholarship allowance	(71,111,441)	(64,570,445)	(6,540,996)	10.13%
Federal grants and contracts	132,931,765	128,690,344	4,241,421	3.30%
State grants and contracts	63,022,749	59,456,363	3,566,386	6.00%
Local grants and contracts	728,163	701,791	26,372	3.76%
Nongovernmental grants and contracts	23,997,528	19,323,916	4,673,612	24.19%
Sales and services of educational and other activities	19,171,127	17,056,818	2,114,309	12.40%
Sales and services of auxiliary enterprises	85,033,505	76,640,024	8,393,481	10.95%
Less scholarship allowance	(2,180,208)	(2,573,218)	393,010	(15.27%)
Interest collected on student loans	245,324	282,689	(37,365)	(13.22%)
Other fees	6,319,013	5,743,772	575,241	10.02%
Other operating revenues	<u>4,498,776</u>	<u>3,063,506</u>	<u>1,435,270</u>	46.85%
Total operating revenues	<u>587,310,225</u>	<u>522,800,832</u>	<u>64,509,393</u>	12.34%
Operating Expenses:				
Compensation and employee benefits	498,933,453	461,706,311	37,227,142	8.06%
Services and supplies	174,968,473	171,563,779	3,404,694	1.98%
Utilities	25,111,166	23,073,722	2,037,444	8.83%
Scholarships and fellowships	54,953,294	47,587,874	7,365,420	15.48%
Depreciation expense	<u>34,204,174</u>	<u>33,096,525</u>	<u>1,107,649</u>	3.35%
Total operating expenses	<u>788,170,560</u>	<u>737,028,211</u>	<u>51,142,349</u>	6.94%
Operating loss	(200,860,335)	(214,227,379)	13,367,044	(6.24%)
Non-operating revenues (expenses)	<u>230,207,370</u>	<u>215,310,417</u>	<u>14,896,953</u>	6.92%
Income before other revenues, expenses, and transfers	29,347,035	1,083,038	28,263,997	2609.70%
Other revenues, expenses, and transfers	<u>50,879,085</u>	<u>15,754,781</u>	<u>35,124,304</u>	222.94%
Increase in net assets	80,226,120	16,837,819	63,388,301	376.46%
Net assets at beginning of year	<u>658,689,166</u>	<u>641,851,347</u>	<u>16,837,819</u>	2.62%
Net assets at end of year	<u>\$ 738,915,286</u>	<u>\$ 658,689,166</u>	<u>\$ 80,226,120</u>	12.18%

UNIVERSITY OF SOUTH CAROLINA – Management’s Discussion and Analysis (Unaudited)

The Summary of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented on this Summary are as follows:

- A net \$39.1 million increase in student tuition and fees, a \$12.5 million increase in grant and contract revenues, and a \$10.1 million increase in sales and service were largely responsible for the overall \$64.5 million increase in Operating Revenues. The increase in student tuition and fees is a result of an increase in enrollment and a 14 percent tuition increase. The tuition increase was necessary due to no significant increase in State appropriations and to still allow the University to meet its mission goals. The increase in grant and contract revenues are mainly attributable to increased federal and state student grants and research grants and contracts.
- Operating expenses increased \$51.1 million or 6.94 percent. The largest increases occurred in compensation and employee benefits, utilities and scholarships and fellowships. Utilities increased due to rate increases and the addition of major capital buildings. Compensation and employee benefits increased because of the increase in grant and contract obligations and research activities.
- The \$14.9 million increase in Non-operating revenues and expenses was primarily attributable to an increase in state appropriations.
- State capital appropriations and other capital grants and gifts increased approximately \$35.5 million.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related

items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

The University placed into service a parking garage which is providing 900-1000 new parking spaces. Recently, a new 88,000 square foot building which will house laboratories, computer based research facilities and smart classrooms for the School of Public Health was completed. The Aiken campus placed into service a 316 bed student housing facility for the Fall 2006. An Energy Performance Contract continues with the facility improvement measures in the areas of lighting, water, steam and mechanical controls. In the Summer of 2007, two new five story research facilities each in excess of 100,000 square feet will be completed along with a 1400 space parking garage. The University’s indebtedness consists of bonds payable of \$201,908,102, bond anticipation notes of \$6,855,000 and notes payable of \$47,165,001. During the current year, \$13,995,000 bonds were issued to fund the purchase of student housing facility.

Economic Outlook

The economic position of the University is somewhat tied to that of the State of South Carolina. The state closed fiscal year 2006 with a funds surplus for the third time in three years. Higher Education funding from the state for fiscal year 2007 has increased approximately 6.7% over the 2006 funding level.

The University’s overall financial position remains strong. Even with no significant increase in state appropriations, there was an increase in unrestricted net assets. The University was aware of state appropriation fund levels at the time fees were established and has anticipated the overall increase in the level of funding.

UNIVERSITY OF SOUTH CAROLINA

Statement of Net Assets

June 30, 2006

	University	Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 165,524,040	\$ 1,835,253	\$ 167,359,293
Investments	-	8,431,700	8,431,700
Accounts receivable, net	47,219,636	872,928	48,092,564
Pledges receivable	2,355,533	-	2,355,533
Student loans receivable, current	5,339	-	5,339
Patients accounts receivable, net	-	2,397,000	2,397,000
Capital improvement bonds proceeds receivable	868,331	-	868,331
Inventories	2,307,416	-	2,307,416
Prepaid items	5,124,517	-	5,124,517
Restricted cash and cash equivalents	23,696,847	-	23,696,847
Funds due from others	4,661,826	-	4,661,826
Total current assets	<u>251,763,485</u>	<u>13,536,881</u>	<u>265,300,366</u>
Noncurrent assets:			
Investments	5,985,955	-	5,985,955
Notes receivable	19,943,910	-	19,943,910
Restricted - cash and cash equivalents	10,900,913	-	10,900,913
Restricted - federal student loans receivable	18,009,394	-	18,009,394
Capital assets, net of accumulated depreciation	792,760,721	14,181,841	806,942,562
Other assets	2,408,635	-	2,408,635
Total noncurrent assets	<u>850,009,528</u>	<u>14,181,841</u>	<u>864,191,369</u>
Total assets	<u>1,101,773,013</u>	<u>27,718,722</u>	<u>1,129,491,735</u>
LIABILITIES			
Current liabilities:			
Accounts payable	17,736,642	3,528,643	21,265,285
Retainage payable - current portion	1,206,406	-	1,206,406
Accrued interest payable	2,613,824	-	2,613,824
Accrued payroll and related liabilities	9,182,323	22,671	9,204,994
Accrued compensated absences - current portion	11,098,842	814,511	11,913,353
Short - term debt	6,855,000	-	6,855,000
Long-term liabilities - current portion	10,864,280	539,034	11,403,314
Deferred revenues	29,934,424	-	29,934,424
Deposits	1,838,198	-	1,838,198
Other liabilities	463,784	-	463,784
Funds held for others	864,198	-	864,198
Total current liabilities	<u>92,657,921</u>	<u>4,904,859</u>	<u>97,562,780</u>
Noncurrent liabilities:			
Retainage payable	297,200	-	297,200
Accrued compensated absences	10,245,085	-	10,245,085
Deferred revenues	2,758,500	-	2,758,500
Federal loan funds	18,690,199	-	18,690,199
Long-term liabilities	238,208,822	8,401,392	246,610,214
Other liabilities	-	341,543	341,543
Total noncurrent liabilities	<u>270,199,806</u>	<u>8,742,935</u>	<u>278,942,741</u>
Total liabilities	<u>362,857,727</u>	<u>13,647,794</u>	<u>376,505,521</u>
Total net assets	<u>738,915,286</u>	<u>14,070,928</u>	<u>752,986,214</u>
NET ASSETS			
Invested in capital assets, net of related debt	536,832,618	5,241,415	542,074,033
Restricted for:			
Nonexpendable	17,913,938	-	17,913,938
Expendable			
Scholarships, research, instruction, and other	6,301,653	-	6,301,653
Loans	2,972,722	-	2,972,722
Capital projects	712,008	-	712,008
Debt service	2,658,172	-	2,658,172
Unrestricted	171,524,175	8,829,513	180,353,688
Total net assets	<u>\$ 738,915,286</u>	<u>\$ 14,070,928</u>	<u>\$ 752,986,214</u>

See accompanying notes to the financials

UNIVERSITY OF SOUTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2006

	<u>University</u>	<u>Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues:			
Student tuition and fees (\$16,472,921 pledged as security for bonds)	\$ 324,653,924	\$ -	\$ 324,653,924
Less scholarship allowance	(71,111,441)	-	(71,111,441)
Patient services, net	-	22,013,918	22,013,918
Federal grants and contracts	132,931,765	-	132,931,765
State grants and contracts	63,022,749	-	63,022,749
Local grants and contracts	728,163	-	728,163
Nongovernmental grants and contracts	23,997,528	-	23,997,528
Sales and services of educational and other activities	19,171,127	-	19,171,127
Sales and services of auxiliary enterprises (\$8,952,136 pledged as security for bond)	85,033,505	-	85,033,505
Less scholarship allowance	(2,180,208)	-	(2,180,208)
Interest collected on student loans	245,324	-	245,324
Other fees (\$2,116,074 pledged as security for bonds)	6,319,013	-	6,319,013
Other operating revenues	<u>4,498,776</u>	<u>14,602,204</u>	<u>19,100,980</u>
Total operating revenues	<u>587,310,225</u>	<u>36,616,122</u>	<u>623,926,347</u>
EXPENSES			
Operating Expenses:			
Compensation and employee benefits	498,933,453	23,956,695	522,890,148
Services and supplies	174,968,473	12,764,609	187,733,082
Utilities	25,111,166	-	25,111,166
Scholarships and fellowships	54,953,294	-	54,953,294
Depreciation expense	<u>34,204,174</u>	<u>1,104,877</u>	<u>35,309,051</u>
Total operating expenses	<u>788,170,560</u>	<u>37,826,181</u>	<u>825,996,741</u>
Operating loss	<u>(200,860,335)</u>	<u>(1,210,059)</u>	<u>(202,070,394)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	199,309,025	-	199,309,025
Gifts	38,350,867	-	38,350,867
Investment income	4,085,051	-	4,085,051
Endowment income	1,751,800	-	1,751,800
Loss on disposal of capital assets	(2,800,220)	-	(2,800,220)
Interest on capital asset related debt	(10,489,153)	(421,136)	(10,910,289)
Other nonoperating revenues	<u>-</u>	<u>424,288</u>	<u>424,288</u>
Net nonoperating revenues (expenses)	<u>230,207,370</u>	<u>3,152</u>	<u>230,210,522</u>
Income (loss) before other revenue, expenses, gains or losses	<u>29,347,035</u>	<u>(1,206,907)</u>	<u>28,140,128</u>
State capital appropriations	11,052,199	-	11,052,199
Capital grants and gifts	38,619,249	-	38,619,249
Additions to permanent endowments	2,664,145	-	2,664,145
Transfers to/from other state funds	<u>(1,456,508)</u>	<u>-</u>	<u>(1,456,508)</u>
Increase (decrease) in net assets	80,226,120	(1,206,907)	79,019,213
NET ASSETS			
Net assets - beginning of year	<u>658,689,166</u>	<u>15,277,835</u>	<u>673,967,001</u>
Net assets - end of year	<u>\$ 738,915,286</u>	<u>\$ 14,070,928</u>	<u>\$ 752,986,214</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2006

	<u>University</u>	<u>Trust</u>	<u>Total</u>
Cash flows from operating activities			
Student tuition and fees	\$ 253,794,150	\$ -	\$ 253,794,150
Patient services, net	-	22,091,918	22,091,918
Research grants and contracts	220,730,452	-	220,730,452
Sales and services of educational and other activities	18,869,920	-	18,869,920
Sales and services of auxiliary enterprises	86,924,520	-	86,924,520
Student loans disbursed	(4,857,847)	-	(4,857,847)
Student loans collected	4,871,639	-	4,871,639
Interest collected on student loans	245,324	-	245,324
Inflows from federal family education loans	183,859,751	-	183,859,751
Outflows from federal family education loans	(183,356,061)	-	(183,356,061)
Payments to employees for services	(497,466,244)	(24,006,068)	(521,472,312)
Payments to suppliers	(200,583,048)	(11,790,600)	(212,373,648)
Payments to students for scholarships and fellowships	(54,953,294)	-	(54,953,294)
Other receipts	10,762,761	14,768,288	25,531,049
Inflows from agency funds	38,664,994	-	38,664,994
Outflows from agency funds	(43,628,182)	-	(43,628,182)
Net cash provided (used) by operating activities	<u>(166,121,165)</u>	<u>1,063,538</u>	<u>(165,057,627)</u>
Cash flows from non-capital financing activities			
State appropriations	199,309,025	-	199,309,025
Gifts for other than capital purposes	38,776,549	-	38,776,549
Additions to permanent endowments	2,664,145	-	2,664,145
Transfers to/from other state agencies	(1,456,508)	-	(1,456,508)
Federal loan liability	(42,559)	-	(42,559)
Net cash provided (used) by noncapital financing activities	<u>239,250,652</u>	<u>-</u>	<u>239,250,652</u>
Cash flows from capital and related financing activities			
Proceeds from capital debt	68,925,000	-	68,925,000
State capital appropriations	10,482,685	-	10,482,685
Capital grants and gifts	1,134,117	-	1,134,117
Gain on disposal of capital assets	421,500	-	421,500
Purchase and construction of capital assets	(91,493,164)	(831,838)	(92,325,002)
Principal paid on capital asset related debt	(65,651,481)	(575,044)	(66,226,525)
Interest paid on capital asset related debt	(12,092,647)	(421,136)	(12,513,783)
New cash used by capital and related financing activities	<u>(88,273,990)</u>	<u>(1,828,018)</u>	<u>(90,102,008)</u>
Cash flows from investing activities			
Purchase of investments	-	(10,034,260)	(10,034,260)
Proceeds from the sale of investments	28,234	9,083,767	9,112,001
Investment income	2,518,576	246,057	2,764,633
Endowment income	1,015,275	-	1,015,275
Net cash provided (used) by investing activities	<u>3,562,085</u>	<u>(704,436)</u>	<u>2,857,649</u>
Net decrease in cash and cash equivalents	(11,582,418)	(1,468,916)	(13,051,334)
Cash and cash equivalents, beginning of year	<u>211,704,218</u>	<u>3,304,169</u>	<u>215,008,387</u>
Cash and cash equivalents, end of year	<u>\$ 200,121,800</u>	<u>\$ 1,835,253</u>	<u>\$ 201,957,053</u>
Reconciliation of net operating revenues (expenses) to net cash provided by (used in) operating activities			
Operating loss	\$ (200,860,335)	\$ (1,210,059)	\$ (202,070,394)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense	34,204,174	1,104,877	35,309,051
Changes in current assets and liabilities			
Accounts receivables, net	(846,488)	166,084	(680,404)
Patients accounts receivables, net	-	78,000	78,000
Student loans receivable	279,695	-	279,695
Capital improvement bond receivable - non-capital	(84,112)	-	(84,112)
Inventories	(125,815)	-	(125,815)
Prepaid items	145,632	-	145,632
Other assets	12,090	-	12,090
Accounts payable	(848,255)	1,125,874	277,619
Retainage payable - non-capital	59,126	-	59,126
Accrued payroll and related liabilities	230,710	(55,905)	174,805
Accrued compensated absences	1,236,499	105,278	1,341,777
Deferred revenues	5,207,285	-	5,207,285
Deposits	(385,660)	-	(385,660)
Other liabilities	113,789	(250,611)	(136,822)
Funds held for others	(4,459,500)	-	(4,459,500)
Net cash provided by (used in) operating activities	<u>\$ (166,121,165)</u>	<u>\$ 1,063,538</u>	<u>\$ (165,057,627)</u>
Non-cash transactions:			
Gifts of capital assets reducing proceeds of capital grants and gifts	\$ 30,570,052	\$ -	\$ 30,570,052
Losses on disposal of capital assets	\$ (3,148,818)	\$ -	\$ (3,148,818)
Change in value of investments recognized in endowment income	\$ 665,697	\$ 165,106	\$ 830,803
Student loans cancelled	\$ 265,903	\$ -	\$ 265,903

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Net Assets

	June 30,2006 University of South Carolina Research Foundation	June 30,2006 University of South Carolina Research Campus Foundation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,895,717	\$ 85,111	\$4,980,828
Restricted cash and cash equivalents	9,502,030	-	9,502,030
Accounts receivable	16,872,245	-	16,872,245
Prepaid expenses and deposits	15,341	-	15,341
Total current assets	31,285,333	85,111	31,370,444
Noncurrent assets			
Capital assets, net of accumulated depreciation	20,374	-	20,374
Total noncurrent assets	20,374	-	20,374
Total assets	31,305,707	85,111	31,390,818
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	18,744,380	-	18,744,380
Deferred revenue	7,043,928	-	7,043,928
Total current liabilities	25,788,308	-	25,788,308
Total liabilities	25,788,308	-	25,788,308
NET ASSETS			
Restricted - expendable for research	20,374	-	20,374
Unrestricted	266,657	-	266,657
Total net assets	5,230,368	85,111	5,315,479
	\$ 5,517,399	\$ 85,111	\$ 5,602,510

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Revenues, Expenses and Changes in Net Assets

	June 30,2006	June 30,2006	
	University of	University of	
	South Carolina	South Carolina	
	Research	Research	
	Foundation	Campus	
	Foundation	Foundation	Total
REVENUES			
Operating revenues			
Federal grants and contracts	\$ 80,000,916	\$ -	\$ 80,000,916
Nongovernmental grants and contracts	7,962,453	-	7,962,453
Management fees and recoveries	18,000,460	-	18,000,460
Royalty income	58,079	-	58,079
Rental income	6,301	-	6,301
Other operating revenues	165,420	-	165,420
Total operating revenues	<u>106,193,629</u>	<u>-</u>	<u>106,193,629</u>
EXPENSES			
Operating Expenses			
Salaries and benefits	697,054	-	697,054
Services and supplies	895,799	907,684	1,803,483
Research and development direct costs	103,586,238	-	103,586,238
Total operating expenses	<u>105,179,091</u>	<u>907,684</u>	<u>106,086,775</u>
Operating income	<u>1,014,538</u>	<u>(907,684)</u>	<u>106,854</u>
NONOPERATING REVENUES (EXPENSES)			
Private gifts and donations	(4,874,776)	-	(4,874,776)
Interest income	470,640	10,646	481,286
Net nonoperating expenses	-	-	-
Change in net assets	<u>(4,404,136)</u>	<u>10,646</u>	<u>(4,393,490)</u>
	<u>(3,389,598)</u>	<u>(897,038)</u>	<u>(4,286,636)</u>
Net assets at beginning of year			
Net assets at end of year	8,906,997	(17,851)	8,889,146
	<u>\$ 5,517,399</u>	<u>\$ (914,889)</u>	<u>\$ 4,602,510</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Condensed Statements of Financial Position

	June 30,2006	June 30,2006	June 30,2006	June 30,2006	June 30,2006	December 31. 2005	June 30,2006	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation	Educational Foundation of the University of South Carolina Lancaster	Aiken Student Housing Foundation	Total
ASSETS								
Cash and cash equivalents	\$ 4,595,641	\$ 11,463,293	\$ 4,211,317	\$ 3,037,176	\$ 555,610	\$ 41,190	\$ 427,221	\$ 24,331,448
Investments	21,270,463	204,869,164	27,966,339	3,652,028	4,771,338	3,898,670		266,428,002
Real estate held for investment	26,051,730	355,146						26,406,876
Assets held in trust		52,847,298			716,471			53,563,769
Accounts receivable	2,250,642	268,294	563,268	718,306	894		217	3,801,621
Contributions receivable, net		8,790,207	5,322,200		1,200,577			15,312,984
Prepaid expenses	1,228		37,815	693,016	276,019			1,008,078
Other assets	253,722		72,732	29,012	236,932			592,398
Fixed assets, net of depreciation	7,478,624	59,606		2,559	13,737,036	1,738,969		\$ 23,016,794
	<u>\$ 61,902,050</u>	<u>\$ 278,653,008</u>	<u>\$ 38,173,671</u>	<u>\$ 8,132,097</u>	<u>\$ 21,494,877</u>	<u>\$ 5,678,829</u>	<u>\$ 427,438</u>	<u>\$ 414,461,970</u>
Total assets								
LIABILITIES								
Accounts payable	\$ 212,950	\$ 13,174,081	\$ 299,816	\$ 347,961	\$ 552,708	\$ 212	\$ 4,300	\$ 14,592,028
Deferred revenues			20,834	1,273,000				1,293,834
Bonds and notes payable	23,887,977	19,943,910			16,297,635			60,129,522
Other liabilities	451,243				1,020,195			1,471,438
	<u>24,552,170</u>	<u>33,117,991</u>	<u>320,650</u>	<u>1,620,961</u>	<u>17,870,538</u>	<u>212</u>	<u>4,300</u>	<u>77,486,822</u>
Total liabilities								
NET ASSETS								
Unrestricted	22,843,345	39,211,408	4,801,244	5,891,602	(145,374)	440,087	423,138	73,465,450
Temporarily restricted	11,240,607	66,651,477	12,811,019	619,534	1,186,549			92,509,186
Permanently restricted	3,265,928	139,672,132	20,240,758		2,583,164	5,238,530		171,000,512
	<u>37,349,880</u>	<u>245,535,017</u>	<u>37,853,021</u>	<u>6,511,136</u>	<u>3,624,339</u>	<u>5,678,617</u>	<u>423,138</u>	<u>336,975,148</u>
Total net assets								
	<u>\$ 61,902,050</u>	<u>\$ 278,653,008</u>	<u>\$ 38,173,671</u>	<u>\$ 8,132,097</u>	<u>\$ 21,494,877</u>	<u>\$ 5,678,829</u>	<u>\$ 427,438</u>	<u>\$ 414,461,970</u>
Total liabilities and net assets								

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Condensed Statements of Activities

	June 30,2006	June 30,2006	June 30,2006	June 30,2006	June 30,2006	December 31. 2005	June 30,2006	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation	Educational Foundation of the University of South Carolina Lancaster	Aiken Student Housing Foundation	Total
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenues, gains and other support	\$ 820,080	\$ 7,965,283	\$ 585,147	\$ 1,491,889	\$ 376,442	\$ 39,655	\$ -	\$ 11,278,496
Contributions	404,289	13,858,117	217,140	176,080	118,301	19,441	39,554	14,832,922
Investment Income	1,978,102	7,861,566	240,386	329,848	132,678			10,542,580
Net realized and unrealized gains(losses)	847,340		1,642,600	2,022,329	1,266,406	6,000	1,025,657	6,810,332
Earned income	(15,858)	1,118,495			4,725			1,107,362
Miscellaneous income	(6,629)				(52,164)		288,579	229,786
Gain (loss) on disposal of assets								-
Net assets released from restrictions:	208,771			166,922		91,265		466,958
Restrictions satisfied by payments		4,470,532	2,758,482		899,321			8,128,335
Satisfaction of program restrictions		(510,962)					113,522	(397,440)
Expiration of time restrictions	4,236,095	34,763,031	5,443,755	4,187,068	2,745,709	156,361	1,467,312	52,999,331
Expenses								
Revenues, gains and other support		6,773,335	1,099,241	583,250	63,873	88,319		8,608,018
Scholarships and student assistance		8,649,315	3,350,128	1,893,878	1,020,508			14,913,829
Program services	3,008,538	2,979,482	167,232	990,323	1,681,602	50,772	1,029,863	9,907,812
Supporting services								-
Other expenses	3,008,538	18,402,132	4,616,601	3,467,451	2,765,983	139,091	1,029,863	33,429,659
Total expenses	1,227,557	16,360,899	827,154	719,617	(20,274)	17,270	437,449	19,569,672
Interest rate swap fair value adjustments					824,250			824,250
Change in unrestricted net assets	1,227,557	16,360,899	827,154	719,617	803,976	17,270	437,449	20,393,922

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Condensed Statements of Activities

	June 30,2006	June 30,2006	June 30,2006	June 30,2006	June 30,2006	December 31. 2005	June 30,2006	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation	Educational Foundation of the University of South Carolina Lancaster	Aiken Student Housing Foundation	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	3,375,049	(7,693,847)	4,985,386	212,715	1,682,342			2,561,645
Investment Income	4,158	184,257	1,496,268					1,684,683
Net realized and unrealized gains(losses)	46,621	3,040,855	1,003,600					4,091,076
Other	1,200	19,636		187,097	273,195			481,128
Net assets released from restrictions:	(208,771)			(166,922)				(375,693)
Restrictions satisfied by payments		(5,708,446)	(2,710,369)		(899,321)		(113,522)	(9,318,136)
Satisfaction of program restrictions		(594,967)						(708,489)
Expiration of time restrictions net assets	3,218,257	(10,752,512)	4,774,885	232,890	1,056,216	-	(113,522)	(1,583,786)
Change in temporarily restricted								
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions			495,892		33,289	425,147		6,123,770
Other						221,125		141,249
Net assets released from restrictions:		1,237,914	(48,113)			(91,265)		1,098,536
Satisfaction of program restrictions	5,169,442	1,105,929						1,105,929
Expiration of time restrictions restricted net assets	(79,876)	7,433,409	447,779	-	33,289	555,007	-	8,469,484
Change in permanently								
Change in net assets	4,445,814	13,041,796	6,049,818	952,507	1,893,481	572,277	323,927	27,279,620
Net assets at beginning of year	32,904,066	232,493,221	31,803,203	5,558,629	1,730,858	5,106,340	99,211	309,695,528
Net assets at end of year	\$ 37,349,880	\$ 245,535,017	\$ 37,853,021	\$ 6,511,136	\$ 3,624,339	\$ 5,678,617	\$ 423,138	\$ 336,975,148

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Note 1 Summary Of Significant Accounting Policies

Nature of Operations

The University of South Carolina is a State-supported, coeducational institution of higher education. The University's primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the University and its blended component unit, as the primary government and other related entities as discretely presented component units.

The University is composed of the Columbia campus, including the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina because it is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (collectively "the Trust") is a blended component unit of the University. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The Trust is considered a blended component unit because the University has appointment authority of the Trust's board of directors. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. December 31 is the year-end date for the Trust and complete financial statements of the Trust can be obtained at the University of South Carolina School of Medicine

Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

The University's discretely presented component units are discussed in Note 12.

Financial Statements

The financial statement presentation for the University meets the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis- for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and - Analysis for Public Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. The only significant estimate used is the separation of accrued compensated absences between current and non-current. Actual results could differ from those estimates.

Basis of Accounting

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

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments

Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying

improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2006 was \$198,120.

Deferred Revenues and Deposits

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

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

The University's net assets are classified as follows:

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

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

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

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

Donor- Restricted Assets

The University policy for the treatment of net appreciation (depreciation) on investments of donor-restricted endowments increases or decreases endowment principal. These amounts are not authorized for expenditure. The University applies the total-return policy for the expenditure of investment or endowment income.

Income Taxes

The General University is a political subdivision of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the University may be subject to taxation as unrelated business income. The Trust and Practice Plan are exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under section 501(c)(3).

Classification of Revenues

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

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) patient charges received in exchange for providing health-related services;
- (3) receipts for scholarships would be included in federal grants and contracts revenue where the governmental agency has identified the qualified student recipients;
- (4) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and
- (5) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student

charges, the University has recorded a scholarship discount and allowance.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt is the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2006.

Note 2—Cash And Cash Equivalents, Other Deposits, And Investments

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

The following schedule reconciles deposits and investments within the notes to the statement of net assets amounts:

Statement of Net Assets		Notes	
Cash and cash equivalents (current)	\$ 167,359,293	Cash on hand	\$ 339,865
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	199,720,380
Debt service	5,406,480	Other deposits	61,555
Capital projects	18,290,367	Blended component unit deposits	1,835,253
Restricted cash and cash equivalents (non-current):		Investments held by State Treasurer	2,251,932
Endowments	7,445,717	Other investments	3,734,023
Federal student loans	3,455,196	Blended component unit investments	8,431,700
Investments (current)	8,431,700		
Investments (non-current)	5,985,955		
	<u>\$ 216,374,708</u>		<u>\$ 216,374,708</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

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

Other Deposits

The University's other deposits at year-end were entirely covered by federal depository insurance for deposits with banks.

Investments Held by State Treasurer and Other Investments

The University's investments include common stock held by the State Treasurer for the University.

The University has other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The uninsured collateral held by pledging bank's trust department not in the University's name was \$3,734,023 at June 30, 2006.

The net change in unrealized appreciation of investments for the current fiscal year increased in the amount of \$698,320.

Blended Component Unit Deposits

The Trust's cash and cash equivalents balance includes cash on deposit with financial institutions of \$1,835,253. At December 31, 2005, the Trust had demand deposits and sweep accounts with banks totaling \$4,275,057. Of these amounts, approximately \$3,058,000 exceeded the limits of federal depository insurance (FDIC).

Of the amount exceeding federal depository insurance limits, \$3,029,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement.

Blended Component Unit Investments

Investments of the blended component unit (the Trust) consist of long-term certificates of deposit, equity securities, and mutual funds. Investments are carried at fair value.

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable equity securities		
Common stock	\$4,470,387	\$4,790,967
Mutual funds	842,004	903,154
Money market funds	147,076	147,076
Certificates of deposits maturing after three months	2,079,443	2,090,503
Other debt instruments	<u>500,000</u>	<u>500,000</u>
	<u>\$8,038,910</u>	<u>\$8,431,700</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

The net change in unrealized appreciation of investments for the current year increased in the amount of \$165,106.

Of the total cash and cash equivalents for the Trust, \$142,057 held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2006.

Management does not believe that significant credit risk is associated with its banking relationships. The difference in reported book balance and the bank and deposits is comprised of in-transit reconciliation items at fiscal year end.

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name.

Note 3 – Receivables

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2006

Students and sponsors	\$ 8,277,957
Auxiliary enterprises	3,372,191
Federal grants and contracts	15,193,439
State grants and contracts	299,390
Local grants and contracts	5,835,661
Non-governmental grants and contracts	4,135,021
Accrued interest	10,620,036
Blended component unit	<u>872,928</u>
	48,606,623
Less allowance for doubtful accounts	<u>514,059</u>
Accounts receivable, net	\$ <u><u>48,092,564</u></u>

Allowances for losses are based upon actual losses experienced in prior years and evaluations of the current accounts.

Pledges Receivable

Pledges receivable consist of the Athletic Gamecock Club membership drive and are due by the end of the calendar year. At June 30, 2006, \$2,355,533 is outstanding net of a \$135,487 allowance.

Patients Accounts Receivable

The Clinical Faculty, through its affiliation with a hospital, provides medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue. Adjustments related to bad debts of privately paying patients are recorded as a provision for uncollectible accounts expense.

At December 31, 2005, patients accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 2,902,000
Less estimated uncollectible charges	<u>(505,000)</u>
Patient accounts receivable, net	\$ <u><u>2,397,000</u></u>

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value is determined by each unit based on its collection experience for similar receivables.

Student Loans Receivable

Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the University ceased to participate in the programs.

As the University determines that loans are uncollectible, the loans are written off and assigned to the federal agency administering the loan programs.

Capital Improvement and Infrastructure Bonds Receivable

The capital improvement and infrastructure bonds receivable represents outstanding bond fund proceeds that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, and state university infrastructure bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

The University has \$24,527,348 of outstanding state capital improvement bond authorization, \$51,950,738 of outstanding research infrastructure bond authorization and \$3,134,690 of outstanding state university infrastructure bond authorization not yet received from the State.

Notes Receivable

As authorized by South Carolina Code of Laws, the University may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation, a related party. Under the terms of the agreement, the University will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

The principal balance of \$19,943,910 and the related cumulative accrued interest receivable of \$9,675,637 respectively are included in the Notes Receivable, and Accounts Receivable, net at June 30, 2006.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Note 4 – Capital Assets

	<u>June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>
Capital assets not being depreciated:				
Land and improvements	\$ 54,879,788	\$ 1,298,394	\$ 72,903	\$ 56,105,279
Construction in-progress	82,971,842	42,985,304	38,169,018	87,788,128
Works of art and historical treasures	<u>16,005,029</u>	<u>-</u>	<u>-</u>	<u>16,005,029</u>
Total capital assets not being depreciated	<u>153,856,659</u>	<u>44,283,698</u>	<u>38,241,921</u>	<u>159,898,436</u>
Other capital assets:				
Land improvements	-	6,220,370	-	6,220,370
Buildings and improvements	832,582,028	97,321,266	3,195,328	926,707,966
Machinery, equipment, and other	115,934,178	13,997,348	8,354,012	121,577,514
Vehicles	9,389,959	801,600	111,973	10,079,586
Intangibles	5,071,565	506,306	-	5,577,871
Blended Component Unit buildings and improvements	16,205,370	282,424	-	16,487,794
Blended Component Unit medical and office equipment	<u>5,573,433</u>	<u>603,206</u>	<u>495,605</u>	<u>5,681,034</u>
Total capital assets at historical cost	<u>984,756,533</u>	<u>119,732,520</u>	<u>12,156,918</u>	<u>1,092,332,135</u>
Less accumulated depreciation for:				
Land improvements	-	170,928	-	170,928
Buildings and improvements	320,644,140	25,495,802	1,546,872	344,593,070
Machinery, equipment, and other	80,157,024	7,550,963	6,468,078	81,239,909
Vehicles	6,577,034	669,061	86,070	7,160,025
Intangibles	3,819,670	317,420	-	4,137,090
Blended Component Unit buildings and improvements	3,448,176	437,839	-	3,886,015
Blended Component Unit medical and office equipment	<u>3,923,915</u>	<u>667,038</u>	<u>489,981</u>	<u>4,100,972</u>
Total accumulated depreciation	<u>418,569,959</u>	<u>35,309,051</u>	<u>8,591,001</u>	<u>445,288,009</u>
Other capital assets, net	<u>566,186,574</u>	<u>84,423,469</u>	<u>3,565,917</u>	<u>647,044,126</u>
Capital Assets, Net	<u>\$ 720,043,233</u>	<u>\$ 128,707,167</u>	<u>\$ 41,807,838</u>	<u>\$ 806,942,562</u>

The gain (loss) on disposal of assets consisted of the following:

Gains on disposals	\$ 348,598
Losses on disposals	<u>(3,148,818)</u>
Net gain (loss) on disposals	<u>\$ (2,800,220)</u>

Note 5—Pension Plans

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

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be

funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing

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

Since July 1, 2005, employees participating in the SCRS have been required to contribute 6.25 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2006, 2005, and 2004, were \$17,235,000, \$16,507,000, and \$15,807,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$342,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2006, 2005, and 2004 were \$337,000, \$274,000, and \$283,000, respectively, and equaled the required contributions of 10.3 percent

(excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$6,500 and accidental death insurance contributions of \$6,500 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

ORP participation is available to all employees who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first thirty days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2006.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$8,312,000 (excluding the surcharge) from the University as employer and \$6,881,000 from its employees as plan members. In fiscal year 2006, the University paid \$165,000 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans.

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Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Participants who entered the TERI program prior to July 1, 2005 do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Participants who entered the TERI program as of July 1, 2005 or after are required to make SCRS contributions but do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Blended Component Unit

The Trust provides a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the years ended December 31, 2005 amounted to \$1,104,000 and is included as a component of personal services and related expenses.

Note 6—Postemployment And Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who

meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,400 State retirees meet these eligibility requirements.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$22,724,000 for the year ended June 30, 2006. As discussed in Note 5, the University paid \$11,104,000 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

Note 7—Contingencies, Litigation, And Project Commitments

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

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

The University had outstanding commitments under construction contracts of \$49,021,163 for capital and \$44,097,410 for noncapital projects at June 30, 2006. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

Note 8—Lease Obligations

Future commitments for capital leases and operating leases that have remaining noncancelable terms in excess of one year as of June 30, 2006 were as follows.

Equipment Capital Leases

Year Ending December 31		
2006		\$ 136,937
2007		134,829
2008		129,915
2009		86,823
2010		<u>5,160</u>
Total minimum lease payments		\$ 493,664
Less interest, executory and other costs		<u>53,238</u>
Present value of minimum lease payments		\$ <u><u>440,426</u></u>

Capital leases for various equipment are payable in monthly installments from current resources. All of the capital leases are with third-party vendors and certain capital leases provide for renewal and/or purchase options.

All equipment capital leases are classified as machinery, equipment and other in Note 4. The historical cost of assets held under capital leases totaled \$589,293 as of June 30, 2006. Accumulated depreciation of this equipment totaled \$291,087 at June 30, 2006.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Real Property Operating Leases

	<u>External Parties</u>	<u>Other State Agencies</u>	<u>Total</u>
Year Ending June 30			
2007	\$ 720,558	\$ 97,275	\$ 817,833
2008	463,548	97,275	560,823
2009	250,837	-	250,837
2010	168,628	-	168,628
2011	<u>6,667</u>	<u>-</u>	<u>6,667</u>
Total minimum lease payments	<u>\$ 1,610,238</u>	<u>\$ 194,550</u>	<u>\$ 1,804,788</u>

The University has a 35-year lease agreement for two city blocks of parking surrounding the Carolina center for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the University paid \$3,500,000, representing rent due for the entire term. This was recorded as a prepayment which will decline as annual expense is booked each year through fiscal year 2038.

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2006-2038. These

noncancelable operating leases include agreements between the University and third party vendors as well as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 2006 to 2030 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total real property operating lease payments were \$1,344,753 for fiscal year 2006. Of this amount, \$227,883 was paid to other State agencies. In the current fiscal year, the University incurred expenses of \$1,041,671 for office copier contingent rentals on a cost per copy basis.

Note 9—Short-Term Debt

Bonds Anticipation Notes (BANS) Payable

Bond anticipation notes payable consisted of the following at June 30, 2006.

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance June 30, 2006</u>
Revenue BANS			
Series 2006A	4.00%	03/15/07	3,560,000
Series 2006B	4.00%	03/15/07	<u>3,295,000</u>
Total BANS Payable			<u>\$ 6,855,000</u>

The University utilizes bond anticipation notes (BANS) to provide interim financing for capital improvements. The University typically converts outstanding BANS to long-term financing, as appropriate, within the normal course of business. BANS are included in short-term liabilities and are due within one year.

During fiscal year 2006, \$3,560,000 athletic facilities revenue BANS Series 2006A, was issued to refinance

a portion of the remaining balance of athletic facilities revenue BANS Series 2005A. \$3,295,000 athletic facilities revenue BANS Series 2006B was issued to refinance a portion of the remaining balance of athletic facilities revenue BANS Series 2005B. Short-term debt activity for the year ended June 30, 2006. was as follows:

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	<u>June 30,</u> <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2006</u>
Revenue BANS	\$ <u>9,345,000</u>	\$ <u>6,855,000</u>	\$ <u>9,345,000</u>	\$ <u>6,855,000</u>
Total Short-Term Debt	\$ <u><u>9,345,000</u></u>	\$ <u><u>6,855,000</u></u>	\$ <u><u>9,345,000</u></u>	\$ <u><u>6,855,000</u></u>

Note 10 – Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following at June 30, 2006.

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u> <u>June 30, 2006</u>
State Institution Bonds			
Series 1996B	5.0%	04/01/16	\$ 19,200,000
Series 2001B	4.5% to 5.0%	07/01/21	29,455,000
Series 2002E	3.0% to 5.0%	09/01/22	15,455,000
Series 2003I	2.75% to 4.625%	10/01/23	<u>6,565,000</u>
Total State Institution Bonds			<u><u>70,675,000</u></u>
Revenue Bonds			
Series 1997	5.25%	06/01/07	210,000
Series 1999A	4.25% to 5.0%	06/01/19	3,720,000
Series 2000A	5.0% to 5.125%	06/01/10	1,710,000
Series 2002	4.0% to 5.5%	05/01/32	19,925,000
Series 2003B	2.25 to 5.0%	05/01/23	4,840,000
Series 2004A	3.375% to 5.375%	05/01/34	29,670,000
Series 2005A	3.0% to 5.0%	05/01/35	12,215,000
Series 2005A Refunding	3.25% to 5.0%	06/01/30	46,745,000
Series 2006A	3.75% to 4.375%	06/01/26	<u>13,995,000</u>
Total Revenue Bonds			<u><u>133,030,000</u></u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>8,500,000</u>
Total Bonds Payable			\$ <u><u>212,205,000</u></u>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the

payment of principal and interest on state institution bonds. The legal debt margin for state institution bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received from tuition and fees for the preceding fiscal year.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Tuition bond fees for the preceding year were \$14,116,214, which results in a legal annual debt service at June 30, 2006 of \$12,704,593. The annual debt service payments for the fiscal year ended June 30, 2006 were \$6,771,068. Tuition revenue pledged in fiscal year 2006 was \$15,707,313 for state institution bonds.

General revenue bonds are payable from and secured by a pledge of net revenues derived by the University from the operation of the facilities constructed with the bond proceeds. General revenue bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of the University which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2006 were \$7,675,235.

Athletic facilities revenue bonds are payable and secured by a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2006 were \$765,609 special student fees, \$2,116,074 special admission fee, and \$1,276,901 athletic department net revenues.

The University has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of

the bonds. Certain of the bonds payable are callable at the option of the University.

As of June 30, 2006, the University believes it is in compliance with all related bond covenants of its issued debt.

During the current fiscal year, the University issued general revenue bonds in the amount of \$13,995,000 for housing facilities.

On September 27, 2005, the University issued \$48,075,000 of Series 2005A Revenue Refunding Bonds at a net premium of \$1,110,530. The net bond proceeds were used to currently refund the Series 1995 revenues bonds, partially advance refund the Series 1996 revenue bonds, partially advance refund the Series 1997 revenue bonds, partially advance refund the Series 2000A revenue bonds and to pay certain costs of issuance related to the bonds. The net proceeds were used to purchase US Government securities and deposited in an irrevocable trust with an escrow agent to provide for the payment of the current refunding and for all future payments for the maturities advanced refunded. As a result, the advanced refunded maturities are considered defeased and the liability for these bonds has been removed from the University's financial statements. At June 30, 2006, \$20,340,000 of bonds outstanding is considered defeased.

The following information is provided for the Series 2005A Revenue Refunding Bonds related to each bond series refunded.

	Series 1995	Series 1996	Series 1997	Series 2000A	Total
Type of refunding	Current	Advance	Advance	Advance	
Maturities refunded	All	6/1/07 to 6/1/26	06/1/08 to 6/1/17	6/1/11 to 6/1/30	
Call Date	10/27/05	6/1/06	6/1/07	6/1/10	
Principal issued	\$4,935,000	\$21,625,000	\$2,830,000	\$18,685,000	\$48,075,000
Principal refunded	\$4,925,000	\$21,150,000	\$2,845,000	\$17,495,000	\$46,415,000
Deferred loss on refunding	\$84,466	\$1,040,280	\$169,981	\$1,608,859	\$2,903,586
Aggregate debt payment reduction	\$243,411	\$3,897,956	\$289,751	\$2,561,094	\$6,992,212
Economic gain	\$232,581	\$2,656,147	\$233,948	\$1,644,714	\$4,767,390

The blended component unit revenue bonds are limited obligations of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty

Practice Plan (collectively the "Trust"). The terms of indebtedness provide that bondholders may redeem, or put, the bonds to the remarketing agent on dates that

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

approximate a monthly basis. The remarketing agent is obligated to remarket the redeemed bonds on a “best efforts” basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a renewing, 13-month letter of credit provided by Wachovia Bank, N.A. (“Wachovia”). In connection with the issuance of the bonds, the University has pledged that for as long as any bonds remain outstanding, the University will not terminate the Practice Plan and will cause it to be operated so that all interest and principal on the bonds will be paid. As additional security to Wachovia, the Trust has granted Wachovia a security interest in substantially all real and personal property of the Trust, in the Trust’s rights to medical office building rents, and in its land lease with the University.

The terms of the indenture of Trust (the “Indenture”) relating to the issuance of the bonds provide that they bear interest at a variable rate, not to exceed 12%. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options

that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2005, the average interest rate on the bonds was 2.34%.

The scheduled redemptions of the blended component unit revenue bonds are as follows:

Year ended December 31, 2005		
2006	\$	425,000
2007		425,000
2008		425,000
2009		425,000
2010		425,000
2211-2015		2,125,000
2016-2020		2,125,000
2021-2025		<u>2,125,000</u>
	\$	<u><u>8,500,000</u></u>

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

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
State Institution Bonds					
2007	\$ 3,570,000	\$	3,204,936	\$	6,774,936
2008	3,775,000		3,041,768		6,816,768
2009	3,975,000		2,875,299		6,850,299
2010	4,165,000		2,700,186		6,865,186
2011	4,380,000		2,514,686		6,894,686
2012-2016	25,585,000		9,332,875		34,917,875
2017-2021	18,580,000		3,870,533		22,450,533
2022-2024	6,645,000		290,634		6,935,634
Total	<u>\$ 70,675,000</u>	<u>\$</u>	<u>27,830,917</u>	<u>\$</u>	<u>98,505,917</u>

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Revenue Bonds					
2007	\$ 3,860,000	\$	5,980,996	\$	9,840,996
2008	4,020,000		5,824,728		9,844,728
2009	4,165,000		5,674,646		9,839,646
2010	4,345,000		5,515,856		9,860,856
2011	4,525,000		5,348,700		9,873,700
2012-2016	25,275,000		23,620,446		48,895,446
2017-2021	26,485,000		17,776,228		44,261,228
2022-2026	30,005,000		11,518,775		41,523,775
2027-2031	20,935,000		5,252,156		26,187,156
2032-2035	9,415,000		915,719		10,330,719
Total	<u>\$ 133,030,000</u>	<u>\$</u>	<u>87,428,250</u>	<u>\$</u>	<u>220,458,250</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Notes Payable

Notes payable consisted of the following at June 30, 2006:

University note payable secured by stadium Scoreboard, dated October, 1999, payable in annual installments of \$75,203, matures November, 2006, interest rate of 5.359%.	\$ 71,378
University note payable to acquire rare literary collection, dated January, 2001, payable in annual installments of \$36,667, matures July 2009, imputed interest rate of 4.38%.	131,914
University note payable secured by aircraft, dated July, 2001, payable in monthly interest payments of \$6,458, thru June, 2003 and monthly principal payments of \$10,417 plus interest matures June 2011, interest rate of 7.75%	625,000
University note payable secured by SGI workstations dated March, 2004, payable in annual installments of \$29,665, matures April, 2007, interest rate of 3.39%.	21,938
University note payable secured by energy management equipment, dated July, 2004, payable in varying semi-annual principal and interest payments, matures July, 2011, interest rate of 3.9695%.	28,335,000
University note payable secured by telecommunications equipment, dated October, 2004, payable in annual installments of \$106,107, matures October, 2008, interest rate of 2.9475%.	300,438
University note payable secured by fitness equipment, dated October, 2004, payable in annual installments of \$36,153, matures October, 2007, interest rate of 2.86%.	69,319
University note payable to acquire energy savings lighting retrofit, dated December, 2004, payable in annual installments of \$130,719, matures December, 2012, interest rate of 1.00%.	879,331
University note payable secured by video conference equipment, dated February, 2005, payable in annual installments of \$48,351, matures February, 2008, interest rate of 3.249%.	92,186
University note payable secured by bio mass energy management equipment, dated June 10, 2005, payable in semi-annual principal and interest payments, matures June 30, 2013, interest rate of 4.0%.	16,131,779

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

University note payable secured by telecommunication equipment, dated August, 2005, payable in annual installments of \$44,452, matures August, 2008, interest rate of 3.9%.

123,592

University note payable secured by athletic ticketing system, dated February, 2006, payable in annual installments of \$90,727, matures February, 2011, interest rate of 5.908%.

383,126

Total Notes Payable

\$47,165,001

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,517,495	\$ 1,834,771	\$ 5,352,266
2008	3,477,920	1,693,511	5,171,431
2009	3,499,097	1,553,256	5,052,353
2010	3,458,636	1,411,302	4,869,938
2011	3,529,230	1,269,803	4,799,033
2012-2013	<u>29,682,623</u>	<u>1,228,020</u>	<u>30,910,643</u>
Total	\$ <u>47,165,001</u>	\$ <u>8,990,663</u>	\$ <u>56,155,664</u>

Note 11 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>June 30,</u> <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2006</u>	<u>Due Within</u> <u>One Year</u>
Bonds and Notes Payable and Capital Lease Obligations					
State Institution Bonds	\$ 74,080,000	\$ —	\$ 3,405,000	\$ 70,675,000	\$ 3,570,000
Revenue Bonds	121,325,000	62,070,000	50,365,000	133,030,000	3,860,000
Blended Component Unit Revenue Bonds	<u>8,920,000</u>	<u>—</u>	<u>420,000</u>	<u>8,500,000</u>	<u>425,000</u>
Subtotal Bonds Payable	204,325,000	62,070,000	54,190,000	212,205,000	7,855,000
Add: Unamortized Bond Premiums	—	1,110,530	68,088	1,042,442	68,064
Less: Unamortized Bond Discounts	490,899	-	418,624	72,275	14,777
Less: Unamortized Loss on Bond Refunding	<u>—</u>	<u>2,903,586</u>	<u>136,521</u>	<u>2,767,065</u>	<u>136,502</u>
Total Bonds Payable	203,834,101	60,276,944	53,702,943	210,408,102	7,771,785
Notes Payable	49,150,312	551,170	2,536,481	47,165,001	3,517,495
Capital Lease Obligations	<u>541,679</u>	<u>53,790</u>	<u>155,044</u>	<u>440,425</u>	<u>114,034</u>
Total Bonds, Notes and Capital Leases	<u>253,526,092</u>	<u>60,881,904</u>	<u>56,394,468</u>	<u>258,013,528</u>	<u>11,403,314</u>
Other Liabilities					
Accrued Compensated Absences	20,816,661	12,460,538	11,118,761	22,158,438	11,913,353
Retainage Payable	1,476,361	1,002,695	975,450	1,503,606	1,206,406
Deferred Revenues	28,716,192	29,934,424	25,957,692	32,692,924	29,934,424
Federal Loan Funds	<u>18,732,758</u>	<u>3,602</u>	<u>46,161</u>	<u>18,690,199</u>	<u>—</u>
Total Other Liabilities	<u>69,741,972</u>	<u>43,401,259</u>	<u>38,098,064</u>	<u>75,045,167</u>	<u>43,054,183</u>
Total Long-Term Liabilities	\$ <u>323,268,064</u>	\$ <u>104,283,163</u>	\$ <u>94,492,532</u>	\$ <u>333,058,695</u>	\$ <u>54,457,497</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Additional information regarding bonds and notes payable is included at Note 10. Additional information regarding Capital lease obligations is included at Note 8.

Note 12 – Component Units

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South Carolina Development Foundation; the Educational Foundation of the University of South Carolina – Lancaster, Inc.; the University of South Carolina Research Foundation; the Aiken Student Housing Foundation; and the University of South Carolina Research Campus Foundation. Because the activities and resources of these entities are for the sole benefit of the University, they are considered component units of the University and are discretely presented in the University's financial statements accordingly as a non-governmental or governmental reporting entity.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the University for the year ended June 30, 2006.

The University of South Carolina Educational Foundation operates for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. The University receives from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the University; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$139,672,132 or 57 % of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention Russell Meekins.

The University of South Carolina Business Partnership Foundation was formed to bring together

representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The University receives funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$20,240,758 or 53% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Educational Foundation of the University of South Carolina – Lancaster, Inc. operates for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. The University receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. The University receives funds for scholarships from the Association and provided office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Carolina Piedmont Foundation, Inc., was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

The University receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the University. The Foundation's capital debt liability is \$16,297,635 which exists to provide capital assets for the University. Complete financial statements for the Foundation can be obtained at Carolina Piedmont Foundation, 800 University Way, Spartanburg, SC 29303.

The University of South Carolina Development Foundation operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. The University receives funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. The University also pays the Foundation for the lease of aircraft and real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Research Foundation exists exclusively to facilitate the University of South Carolina's teaching, research and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. The Foundation receives research funding from private sources and also competes for federal funds. The University receives funds for research from the Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention Russell Meekins.

The Aiken Student Housing Foundation was established to provide student housing for the exclusive use and benefit of the University of South Carolina Aiken. During the current fiscal year, the Foundation sold its capital assets to the University for \$12,700,000.

Complete financial statements for the Foundation can be obtained at the Office of Business and Finance, 471 University Parkway, Aiken, SC 29801.

The University of South Carolina Research Campus Foundation was established to facilitate the University of South Carolina's education and scientific research mission. It will support research activities by establishing a research campus to foster basic and applied research and an advanced public/private collaboration. Complete financial statements for the Foundation can be obtained from the Office of Business and Finance, 201 Osborne Building, USC, Columbia, SC 29208.

Various transactions occur between the University and the component units. A summary of the transactions for the year ended June 30, 2006 follows:

Funds Received from Component Units

Carolina Piedmont Foundation	\$	245,722
USC Development Foundation		12,951
USC Business Partnership Foundation		404,176
USC Educational Foundation		11,353,829
Greater USC Alumni Association		1,568,235
Educational Foundation of USC Lancaster		88,595
USC Research Foundation		<u>80,045,357</u>
		<u>\$93,718,865</u>

The majority of the University of South Carolina Research Foundation revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$14,004,387 due from the University of South Carolina Research Foundation at June 30, 2006.

Funds Paid to Component Units

USC Development Foundation	\$	822,210
USC Educational Foundation		54,306
USC Business Partnership Foundation		276
Aiken Student Housing Foundation		12,700,000
Carolina Piedmont Foundation		<u>89,550</u>
		<u>\$ 13,666,342</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Note 13 – Risk Management

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage and directors and officers personal liability for fiduciary matters. The University sees the only reasonable application of business interruption insurance to be in university housing. Further, the University believes that the risk of a fiduciary claim against directors and officers is low in the public arena. Management believes coverages for all other risks of loss are sufficient to preclude any significant uninsured losses for the covered risks. Claims have been settled within the limits of the coverages in each of the past three years.

The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Students are insured through a student apprentice plan through the State Accident Fund. The students who are typically engaged in distributive education programs are insured through the above program.

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals, employees, third- and fourth-year medical students, and student health practitioners at student health services.

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

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

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation and for destruction up to \$500,000. In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2006

Note 14—Operating Expenses By Function

Operating expenses by functional classification for the year ended June 30, 2006 are summarized as follows:

	Compensation and Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 236,423,138	\$ 29,210,011	\$ 18,908	\$ 471,335	\$ -	\$ 266,123,392
Research	64,328,748	34,430,365	2,064	445,788	-	99,206,965
Public service	40,052,347	15,796,695	538,170	552,997	-	56,940,209
Academic support	36,947,464	26,568,223	-	46,801	-	63,562,488
Student services	22,220,280	13,697,947	102,038	183,246	-	36,203,511
Institutional support	43,972,167	459,179	(2,998)	70,843	-	44,499,191
Operation and maintenance of plant	24,848,553	14,440,444	18,278,486	10,686	-	57,578,169
Auxiliary Enterprises	28,062,952	40,300,586	6,174,498	3,438,163	-	77,976,199
Scholarships and fellowships	2,077,804	65,023	-	49,733,435	-	51,876,262
Blended Component Unit	23,956,695	12,764,609	-	-	1,104,877	37,826,181
Depreciation	-	-	-	-	34,204,174	34,204,174
Total Operating Expenses	\$ 522,890,148	\$ 187,733,082	\$ 25,111,166	\$ 54,953,294	\$ 35,309,051	\$ 825,996,741

Note 15—Endowments and Similar Funds

The University's endowment funds and type consist of the following as of June 30, 2006.

<u>Net Asset Classification</u>	<u>True Endowment</u>	<u>Term Endowment</u>	<u>Quasi Endowment</u>	<u>Annuity & Life Income</u>	<u>Total</u>
Restricted - Nonexpendable	\$17,859,631	\$ 54,307	\$ -	\$ -	\$ 17,913,938
Restricted – Expendable	-	-	-	-	-
Scholarships, research, and other	-	-	1,918,049	-	1,918,049
Capital Projects	-	-	-	1,262,271	1,262,271
Unrestricted	-	-	26,669,436	-	26,669,436
Total	\$17,859,631	\$ 54,307	\$ 28,587,485	\$ 1,262,271	\$ 47,763,694

UNIVERSITY OF SOUTH CAROLINA - Supplemental Schedules - June 30, 2006

The following supplemental information is provided at the request of the State of South Carolina Office of Comptroller General.

Non-Capital Appropriations

Current year's appropriations:

Original appropriations per Annual Appropriations Act	\$ 186,018,713
Budget and Control Board Allocations	8,482,829
Supplemental Appropriations (Proviso 73.17)	200,000
Supplemental Appropriations (Proviso 73.18)	1,775,000
From Commission on Higher Education	
Technology Initiative	1,850,966
Academic Endowment Incentive	144,318
Gifts Project	10,000
Transfer from Department of Revenue - EIA	653,144
Transfer from Department of Health and Environmental Control	<u>174,055</u>
Total non-capital appropriations recorded as current year revenue	\$ <u><u>199,309,025</u></u>

State Capital Appropriations

Capital Improvement Bond Proceeds:

Proceeds drawn during the current fiscal year	\$ 4,013,414
Plus: Expenses incurred but not drawn during current fiscal year	28,512
Less: Proceeds drawn but not expended during current fiscal year	<u>(214,705)</u>
Total capital improvement bond proceeds recorded as current year revenue	<u>3,827,221</u>

Research Infrastructure Bond Proceeds:

Proceeds drawn during the current fiscal year	6,049,262
Plus: Expenses incurred but not drawn during current fiscal year	<u>772,870</u>
Total research infrastructure bond proceeds recorded as current year revenue	<u>6,822,132</u>

University Infrastructure Bond Proceeds:

Proceeds drawn during the current fiscal year	335,897
Plus: Expenses incurred but not drawn during current fiscal year	<u>66,949</u>
Total university infrastructure bond proceeds recorded as current year revenue	<u>402,846</u>

Total state capital appropriations recorded as current year revenue	\$ <u><u>11,052,199</u></u>
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See accompanying independent auditor's report.

UNIVERSITY OF SOUTH CAROLINA - Supplemental Schedules - June 30, 2006

Information for Statement of Activities

	<u>2006</u>	<u>Comparative Amounts for 2005</u>	<u>Increase/ (Decrease)</u>
University			
Charges for services	\$ 582,811,449	\$ 519,737,326	\$ 63,074,124
Operating grants and contributions	48,686,494	42,918,067	5,768,427
Capital grants and contributions	38,619,249	10,784,454	27,834,795
Less expenses	<u>(801,459,933)</u>	<u>(748,343,451)</u>	<u>(53,116,483)</u>
Net program revenue (expense)	<u>(131,342,741)</u>	<u>(174,903,604)</u>	<u>43,560,863</u>
Additions to permanent endowments	2,664,145	2,822,149	(158,004)
Transfers:			
State appropriations	199,309,025	186,771,096	12,537,929
Capital improvement bond proceeds	11,052,199	3,409,238	7,642,961
Transfers to/from other state agencies	<u>(1,456,508)</u>	<u>(1,261,060)</u>	<u>(195,448)</u>
Total contributions and transfers	<u>211,568,861</u>	<u>191,741,423</u>	<u>19,827,438</u>
Changes in net assets	80,226,120	16,837,819	63,388,301
Net assets - beginning	<u>658,689,166</u>	<u>641,851,347</u>	<u>16,837,819</u>
Net assets - ending	<u>\$ 738,915,286</u>	<u>\$ 658,689,166</u>	<u>\$ 80,226,120</u>

	<u>2006</u>	<u>Comparative Amounts for 2005</u>	<u>Increase/ (Decrease)</u>
Trust			
Charges for services	\$ 22,013,918	\$ 21,582,676	\$ 431,242
Operating grants and contributions	15,026,492	15,050,264	(23,772)
Less expenses	<u>(38,247,317)</u>	<u>(34,080,021)</u>	<u>(4,137,296)</u>
Net program revenue (expense)	<u>(1,206,907)</u>	<u>2,552,919</u>	<u>(3,759,826)</u>
Changes in net assets	(1,206,907)	2,552,919	(3,759,826)
Net assets - beginning	<u>15,277,835</u>	<u>12,724,916</u>	<u>2,552,919</u>
Net assets - ending	<u>\$ 14,070,928</u>	<u>\$ 15,277,835</u>	<u>\$ (1,206,907)</u>

See accompanying independent auditor's report.