

UNIVERSITY OF SOUTH CAROLINA

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2010**

UNIVERSITY OF SOUTH CAROLINA

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina (the University), a department of the State of South Carolina as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the University. 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). These financial statements represent approximately 2 percent, 1 percent, and 8 percent, respectively, of assets, net assets, and revenues of the business-type activities. We also did not audit the financial statements of the University of South Carolina Research 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 Carolina Piedmont Foundation; and the Educational Foundation of the University of South Carolina - Lancaster (collectively referred to as the Foundations). These financial statements represent approximately 86 percent, 92 percent, and 97 percent, respectively, of the assets, net assets, and revenues of the University's aggregate discretely presented component units. The financial statements of the Trust and the Foundations 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 the 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 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 are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2010, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the University's internal control over financial reporting and 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 considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 and capital state appropriations and state stabilizations funds and information for statement of activities on pages 39 and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

Elliott Davis, LLC

Columbia, South Carolina
October 15, 2010

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 2010. While audited financial statements for fiscal year 2009 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 (the Trust). 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, the Carolina Piedmont Foundation, and the Educational Foundation of the University of South Carolina - Lancaster.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) 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.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of 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 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.

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(Unaudited)

Summary of Net Assets

	<u>2010</u>	<u>Restated 2009</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 498,110,270	\$ 408,425,451	\$ 89,684,819	21.96%
Capital Assets, Net	1,045,975,719	1,035,511,428	10,464,291	1.01%
Other Noncurrent Assets	<u>89,697,874</u>	<u>82,954,328</u>	<u>6,743,546</u>	8.13%
Total Assets	<u>1,633,783,863</u>	<u>1,526,891,207</u>	<u>106,892,656</u>	7.00%
Liabilities				
Current Liabilities	123,183,013	124,810,839	(1,627,826)	(1.30%)
Noncurrent Liabilities	<u>447,225,209</u>	<u>435,002,333</u>	<u>12,222,876</u>	2.81%
Total Liabilities	<u>570,408,222</u>	<u>559,813,172</u>	<u>10,595,050</u>	1.89%
Net Assets				
Invested in capital assets, net of related debt	596,113,766	597,304,971	(1,191,205)	(0.20%)
Restricted - nonexpendable	48,147,932	41,080,407	7,067,525	17.20%
Restricted - expendable	92,908,823	70,677,816	22,231,007	31.45%
Unrestricted	<u>326,205,120</u>	<u>258,014,841</u>	<u>68,190,279</u>	26.43%
Total Net Assets	<u>\$ 1,063,375,641</u>	<u>\$ 967,078,035</u>	<u>\$ 96,297,606</u>	9.96%

Certain restatements of total Net Assets were made for fiscal year 2009 in the amount of \$9,788,231. Net assets invested in capital assets, net of related debt, increased \$11,305,858 and unrestricted net assets decreased \$1,517,627.

- Total Assets of the University increased by \$107 million. Current assets increased \$90 million, primarily due to the increase in unrestricted net assets of \$68 million.
- The increase in non-current liabilities of \$12.2 million is primarily attributable to an increase in long term debt. Bonds in the amount of \$28.5 million were issued to provide funding for the renovation of a student housing facility.
- Net Assets of the University increased during the year by \$96 million. The increase is driven by the \$7 million increase in restricted nonexpendable endowment funds, \$17 million increase in restricted expendable capital project net assets, and a \$68 million increase in unrestricted net assets.

Unrestricted net assets result from accumulated excess revenue over expenses derived from University current fund operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net assets include balances from operations of Education and General (E&G) activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net assets are not subject to externally imposed stipulations, most of these resources have been committed for specific University activities including academic and research programs, capital projects, and significant upgrades to the campus technology network.

Unrestricted net assets increased by \$68 million, based on the following:

- Education and general - increase of \$48.5 million due to additional tuition collections from increased tuition and higher student enrollments. Despite a reduction of state appropriations totaling more than \$70 million since the 2008 fiscal year, mid-year state appropriation reductions in the 2010 fiscal year were

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less than anticipated. Academic funds remain available to support faculty hiring and associated start up costs.

- With the availability of \$29 million in stimulus funding for the State Fiscal Stabilization Funds, the University experienced an increase in operating funds carried forward as some recurring expenditures were covered with one-time Federal funds.
- The University recognized \$4.9 million revenue for Prudential demutualization.
- Auxiliaries - increase of \$2.6 million from fiscal year 2009. Housing revenues were up due to the opening of a new dormitory in Fall 2009, but balances were reduced for planned renovations that did not occur in the prior fiscal year due to a state moratorium on capital projects during the Summer of 2008. Athletic revenues increased due to additional revenue from the Southeastern Conference and higher than expected football seat premiums. Other auxiliaries experienced an increase in revenues from higher student enrollments.
- Unexpended plant funds - increased by \$16.7 million. Athletic projects were prefunded with \$6.4 million in advance of expenditures for planned renovations and Housing Maintenance reserves increased by \$4.4 million. The remaining increases are from renovation reserves.

Statement 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.

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 (loss) before other revenues and transfers".

Certain restatements of operating and non-operating revenues, expenses, and capital gifts were made for fiscal year 2009. These restatements were due to a prior period adjustment in reporting a capital lease transaction and the activity involving the capital lease that increased net assets by \$9,788,231.

Also, certain reclassifications of operating and non-operating revenues were made for fiscal year 2009. These reclassifications were due to an accounting change of reporting Federal Pell grant revenues from operating to non-operating revenues. These reclassifications had no effect to the change in net assets.

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Management's Discussion and Analysis
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Summary of Revenues, Expenses and Changes in Net Assets				
	2010	Restated 2009	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	\$ 494,733,627	\$ 452,262,503	\$ 42,471,124	9.39%
Less scholarship allowance	(197,862,853)	(176,854,219)	(21,008,634)	11.88%
Federal grants and contracts	130,114,991	118,853,671	11,261,320	9.47%
State grants and contracts	76,984,614	75,997,300	987,314	1.30%
Local grants and contracts	1,245,423	1,061,032	184,391	17.38%
Nongovernmental grants and contracts	26,195,790	26,988,177	(792,387)	(2.94%)
Sales and services of educational and other activities	24,216,598	25,428,487	(1,211,889)	(4.77%)
Sales and services of auxiliary enterprises	115,943,595	107,574,717	8,368,878	7.78%
Less scholarship allowance	(5,628,228)	(5,287,048)	(341,180)	6.45%
Interest collected on student loans	303,023	252,996	50,027	19.77%
Other fees	6,151,019	7,034,695	(883,676)	(12.56%)
Other operating revenues	<u>5,618,497</u>	<u>4,440,017</u>	<u>1,178,480</u>	26.54%
Total operating revenues	<u>678,016,096</u>	<u>637,752,328</u>	<u>40,263,768</u>	6.31%
Operating Expenses:				
Compensation and employee benefits	574,398,384	574,689,850	(291,466)	(0.05%)
Services and supplies	197,043,797	202,314,801	(5,271,004)	(2.61%)
Utilities	28,061,554	26,938,468	1,123,086	4.17%
Scholarships and fellowships	21,378,274	17,128,876	4,249,398	24.81%
Depreciation expense	49,323,733	46,495,749	2,827,984	6.08%
Total operating expenses	<u>870,205,742</u>	<u>867,567,744</u>	<u>2,637,998</u>	0.30%
Operating loss	<u>(192,189,646)</u>	<u>(229,815,416)</u>	<u>37,625,770</u>	(16.37%)
Non-operating revenues and expenses , net	<u>265,882,680</u>	<u>254,754,537</u>	<u>11,128,143</u>	4.37%
Income before other revenues and transfers	73,693,034	24,939,121	48,753,913	195.49%
Other revenues and transfers	<u>22,604,572</u>	<u>53,801,952</u>	<u>(31,197,380)</u>	(57.99%)
Increase in net assets	96,297,606	78,741,073	17,556,533	22.30%
Net assets at beginning of year	<u>967,078,035</u>	<u>888,336,962</u>	<u>78,741,073</u>	8.86%
Net assets at end of year	<u>\$ 1,063,375,641</u>	<u>\$ 967,078,035</u>	<u>\$ 96,297,606</u>	9.96%

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The Statement 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 \$21.5 million increase in student tuition and fees, a net \$8 million increase in sales and services of auxiliary enterprises and a \$11.6 million increase in grants and contracts were largely responsible for the overall \$40.3 million increase in Operating Revenues. The increase in student tuition and fees is due both to enrollment increases across the system and the 3.6% tuition increase at the Columbia campus. The tuition increase is necessary for meeting the University's mission and strategic goals especially as state appropriations decline.
- Operating expenses increased just \$2.6 million, less than one-half of a percent. This is the lowest annual increase in more than five years both in terms of dollars and as a percentage. This is due to the tremendous pressure placed on the operating budgets by a series of state appropriations reductions. Operating budgets were recalibrated throughout the fiscal year to account for losses in appropriations. Minimal reductions in compensation and benefits indicate no state pay package for employees and no changes in employee benefits. Faculty and staff replacements are prolonged and the University has a number of long-standing vacancies. Services and supplies dropped more than \$5 million reflecting reduced unit operating budgets. Scholarships and fellowships show the largest dollar increase indicative of the University's commitment to support student financial need.
- Non-operating revenues increased \$11.1 million despite continued reductions in state appropriations. The State Fiscal Stabilization Funds from the Federal stimulus are recorded as non-operating Federal Appropriations. Of the \$29 million available in one year a total of \$21 million was utilized and the balance is carried forward to fiscal year 2011. Also included as non-operating Federal Appropriations is additional Pell Grant revenue received of \$15.5 million more than the prior year.

- Other revenues, expenses, and transfers decreased by \$31.2 million due to reductions in capital grants and gifts and a decreased addition to permanent endowments reflecting the receipt in the prior year of the Centers of Economic Excellence endowment funds.

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

During the year, various projects on the Columbia campus were completed including the 36,000 square foot Ernest Hollings Special Collection Library at a cost of \$17.5 million. The facility will provide specialized secure stack areas and climate control to preserve the University's valuable rare books, including research collections and modern political collections. In addition, the facility will provide specialized public space and work areas so that materials may be fully and responsibly utilized.

In January 2010, the Athletic department opened the doors to the 40,000 square foot Dodie Anderson Academic Enrichment Center at a cost of \$13 million. The Center provides tutoring rooms, seminar rooms, computer labs, full service cafeteria and academic support staff offices. The state of the art facility is a tremendous resource and provides the student athletes the continued opportunity to build on academic accomplishments they have been able to achieve over the years.

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The Fall of 2009 saw the opening of a second residence hall on the USC Upstate campus. The \$17 million 350 bed facility is made up of four bedroom suites with private and shared bathrooms. The addition of this new facility brings the total beds on the Upstate campus to approximately 700.

The University's indebtedness consists of bonds payable of \$380,053,505, bond anticipation notes of \$17,600,000 and notes payable of \$34,266,701. During the current year, \$28,510,000 in revenue bonds were issued to fund various capital projects.

Economic Outlook

The economic position of the University continues to be loosely tied to that of the State of South Carolina as evidenced by the University's sustained strong financial performance despite significant reductions in state appropriations. The state closed the fiscal year 2010 with a modest surplus following two deficit years. The University did not receive a state funding reduction to begin the 2010 year, but appropriations were reduced by 4.04% in September and 5.0% in December 2009. Along with all public higher education institutions in South Carolina, the University received a staggering 21% state appropriations reduction to begin the 2011 fiscal year. Based on a strong start to the current fiscal year it does not appear likely that the University will receive mid-year cuts. However, planning is underway to budget another recurring 20% reduction in state funding to start the 2012 fiscal year based on preliminary indications from the State. For 2011, the University will receive a second year of non-recurring Federal State Stabilization stimulus funding totaling \$32.7 million. These funds will be used for special non-recurring initiatives that address strategic priorities.

The University's overall financial position remains strong, despite reductions in state appropriations. The University relies on tuition and fees to support the general operating budget and is aware of state funding support when tuition and fees are set. Tuition increases for the 2011 year were above the Higher Education Price Index (HEPI) but did not replace the full impact of state budget reduction to cover all inflationary needs. Resident undergraduate tuitions for four other public institutions in South Carolina exceed the tuition rate for the USC Columbia campus. System campus tuitions are comparable with similar institutions in the state. Demand for enrollment and interest in the University remains strong with record numbers of applications received and record size freshman class

enrolled in Columbia for Fall 2010. The University also experienced record numbers for research grants and private giving.

UNIVERSITY OF SOUTH CAROLINA
Statements of Net Assets

	June 30, 2010 University	December 31, 2009 Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 360,604,315	\$ 5,298,625	\$ 365,902,940
Investments	-	6,307,249	6,307,249
Accounts receivable, net	43,206,120	5,077,478	48,283,598
Student loans receivable, current	2,066	-	2,066
Patients accounts receivable, net	-	3,070,000	3,070,000
Capital improvement bonds proceeds receivable	269,791	-	269,791
Inventories	2,921,077	-	2,921,077
Prepaid items	6,429,458	-	6,429,458
Restricted - cash and cash equivalents	76,690,170	-	76,690,170
Funds due from others	7,987,273	-	7,987,273
Total current assets	<u>498,110,270</u>	<u>19,753,352</u>	<u>517,863,622</u>
Noncurrent assets:			
Investments	5,433,323	-	5,433,323
Notes receivable	19,943,910	-	19,943,910
Restricted - cash and cash equivalents	42,233,496	-	42,233,496
Restricted - federal student loans receivable	19,508,928	-	19,508,928
Capital assets, net of accumulated depreciation	1,045,975,719	13,362,844	1,059,338,563
Other assets	2,578,217	-	2,578,217
Total noncurrent assets	<u>1,135,673,593</u>	<u>13,362,844</u>	<u>1,149,036,437</u>
Total assets	<u>1,633,783,863</u>	<u>33,116,196</u>	<u>1,666,900,059</u>
LIABILITIES			
Current liabilities:			
Accounts payable	20,056,557	8,764,488	28,821,045
Retainage payable - current portion	809,430	-	809,430
Accrued interest payable	3,546,824	-	3,546,824
Accrued payroll and related liabilities	12,139,989	112,507	12,252,496
Accrued compensated absences - current portion	12,509,857	1,404,324	13,914,181
Short - term debt	17,600,000	-	17,600,000
Long-term liabilities - current portion	18,372,712	545,583	18,918,295
Deferred revenues	30,554,886	-	30,554,886
Deposits	2,351,124	-	2,351,124
Other liabilities	352,112	-	352,112
Funds held for others	4,889,522	-	4,889,522
Total current liabilities	<u>123,183,013</u>	<u>10,826,902</u>	<u>134,009,915</u>
Noncurrent liabilities:			
Retainage payable	50,942	-	50,942
Accrued compensated absences	13,552,346	-	13,552,346
Deferred revenues	1,025,000	-	1,025,000
Federal loan funds	18,237,680	-	18,237,680
Long-term liabilities	413,889,241	6,895,474	420,784,715
Other liabilities	470,000	410,637	880,637
Total noncurrent liabilities	<u>447,225,209</u>	<u>7,306,111</u>	<u>454,531,320</u>
Total liabilities	<u>570,408,222</u>	<u>18,133,013</u>	<u>588,541,235</u>
NET ASSETS			
Invested in capital assets, net of related debt	596,113,766	5,921,787	602,035,553
Restricted for:			
Nonexpendable	48,147,932	-	48,147,932
Expendable			
Scholarships, research, instruction, and other	15,256,154	-	15,256,154
Loans	2,951,702	-	2,951,702
Capital projects	66,640,161	-	66,640,161
Debt service	8,060,806	-	8,060,806
Unrestricted	<u>326,205,120</u>	<u>9,061,396</u>	<u>335,266,516</u>
Total net assets	<u>\$ 1,063,375,641</u>	<u>\$ 14,983,183</u>	<u>\$ 1,078,358,824</u>

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statements of Revenues, Expenses and Changes in Net Assets

	For the years ended		Total
	June 30, 2010 University	December 31, 2009 Trust	
OPERATING REVENUES			
Student tuition and fees (\$24,571,647 pledged for bonds)	\$ 494,733,627	\$ -	\$ 494,733,627
Less scholarship allowance	(197,862,853)	-	(197,862,853)
Patient services, net	-	34,685,492	34,685,492
Federal grants and contracts	130,114,991	-	130,114,991
State grants and contracts	76,984,614	-	76,984,614
Local grants and contracts	1,245,423	-	1,245,423
Nongovernmental grants and contracts	26,195,790	-	26,195,790
Sales and services of educational and other activities	24,216,598	-	24,216,598
Sales and services of auxiliary enterprises (\$17,191,913 pledged for bonds)	115,943,595	-	115,943,595
Less scholarship allowance	(5,628,228)	-	(5,628,228)
Interest collected on student loans	303,023	-	303,023
Other fees (\$1,803,288 pledged for bonds)	6,151,019	-	6,151,019
Other operating revenues	5,618,497	26,104,483	31,722,980
Total operating revenues	678,016,096	60,789,975	738,806,071
OPERATING EXPENSES			
Salaries and wages	450,466,421	41,260,980	491,727,401
Fringe benefits	123,931,963	-	123,931,963
Services and supplies	197,043,797	20,815,555	217,859,352
Utilities	28,061,554	-	28,061,554
Scholarships and fellowships	21,378,274	-	21,378,274
Depreciation expense	49,323,733	1,095,441	50,419,174
Total operating expenses	870,205,742	63,171,976	933,377,718
Operating loss	(192,189,646)	(2,382,001)	(194,571,647)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	160,184,036	-	160,184,036
Federal grants	65,551,760	-	65,551,760
Gifts	42,086,263	-	42,086,263
Investment income	9,419,717	1,078,944	10,498,661
Endowment income	8,383,588	-	8,383,588
Loss on disposal of capital assets	(717,059)	(621)	(717,680)
Interest on capital asset related debt	(19,040,129)	(334,148)	(19,374,277)
Other nonoperating revenues, net	14,504	-	14,504
Net nonoperating revenues	265,882,680	744,175	266,626,855
Income (loss) before other revenues and transfers	73,693,034	(1,637,826)	72,055,208
State capital appropriations	7,630,615	-	7,630,615
Capital grants and gifts	9,823,795	-	9,823,795
Additions to permanent endowments	6,446,052	-	6,446,052
Transfers to other state funds, net	(1,295,890)	-	(1,295,890)
Change in net assets	96,297,606	(1,637,826)	94,659,780
NET ASSETS, BEGINNING OF YEAR, AS ORIGINALLY STATED	957,289,804	16,621,009	973,910,813
Restatement	9,788,231	-	9,788,231
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	967,078,035	16,621,009	983,699,044
NET ASSETS, END OF YEAR	\$ 1,063,375,641	\$ 14,983,183	\$ 1,078,358,824

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statements of Cash Flows

	For the years ended		
	June 30, 2010	December 31, 2009	
	University	Trust	Total
OPERATING ACTIVITIES			
Student tuition and fees	\$ 298,184,209	\$ -	\$ 298,184,209
Patient services, net	-	34,865,492	34,865,492
Research grants and contracts	232,933,789	-	232,933,789
Sales and services of educational and other activities	23,964,413	-	23,964,413
Sales and services of auxiliary enterprises	110,751,498	-	110,751,498
Student loans disbursed	(3,366,401)	-	(3,366,401)
Student loans collected	2,898,626	-	2,898,626
Interest collected on student loans	303,023	-	303,023
Inflows from federal family education loans	276,376,906	-	276,376,906
Outflows from federal family education loans	(275,714,286)	-	(275,714,286)
Payments to employees for services	(447,747,798)	(41,065,132)	(488,812,930)
Payments to employees for benefits	(123,841,477)	-	(123,841,477)
Payments to suppliers	(221,917,513)	(17,421,186)	(239,338,699)
Payments to students for scholarships and fellowships	(21,378,274)	-	(21,378,274)
Other receipts	11,776,455	26,808,837	38,585,292
Inflows from agency funds	54,515,595	-	54,515,595
Outflows from agency funds	(58,229,569)	-	(58,229,569)
Net cash provided (used) by operating activities	(140,490,804)	3,188,011	(137,302,793)
NONCAPITAL FINANCING ACTIVITIES			
State appropriations	160,184,036	-	160,184,036
Federal grants	64,575,246	-	64,575,246
Gifts	42,089,402	-	42,089,402
Additions to permanent endowments	6,446,052	-	6,446,052
Other nonoperating revenues, net	14,504	-	14,504
Transfers to other state funds, net	(1,295,890)	-	(1,295,890)
Federal loan liability	(134,525)	-	(134,525)
Net cash provided by noncapital financing activities	271,878,825	-	271,878,825
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	46,340,282	-	46,340,282
State capital appropriations	8,579,461	-	8,579,461
Capital grants and gifts	10,027,067	-	10,027,067
Proceeds from sale of capital assets	31,272	-	31,272
Purchase and construction of capital assets	(66,510,720)	(778,494)	(67,289,214)
Principal paid on capital asset related debt	(36,909,661)	(531,453)	(37,441,114)
Interest paid on capital asset related debt	(18,150,933)	(330,732)	(18,481,665)
Net cash used by capital and related financing activities	(56,593,232)	(1,640,679)	(58,233,911)
INVESTING ACTIVITIES			
Purchase of investments	-	(2,026,328)	(2,026,328)
Proceeds from the sale of investments	20,785	2,163,783	2,184,568
Investment Income	8,545,251	151,286	8,696,537
Endowment Income	7,558,727	-	7,558,727
Net cash provided by investing activities	16,124,763	288,741	16,413,504
Net increase in cash and cash equivalents	90,919,552	1,836,073	92,755,625
Cash and cash equivalents, beginning of year	388,608,429	3,462,552	392,070,981
Cash and cash equivalents, end of year	\$ 479,527,981	\$ 5,298,625	\$ 484,826,606
Reconciliation of cash and cash equivalents			
Cash and cash equivalents	\$ 360,604,315	\$ 5,298,625	\$ 365,902,940
Restricted - cash and cash equivalents, current	76,690,170	-	76,690,170
Restricted - cash and cash equivalents, noncurrent	42,233,496	-	42,233,496
	\$ 479,527,981	\$ 5,298,625	\$ 484,826,606

UNIVERSITY OF SOUTH CAROLINA
Statements of Cash Flows

	For the years ended		Total
	June 30, 2010 University	December 31, 2009 Trust	
Reconciliation of net operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (192,189,646)	\$ (2,382,001)	\$ (194,571,647)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation expense	49,323,733	1,095,441	50,419,174
Change in current assets and liabilities			
Accounts receivable, net	(2,365,241)	704,354	(1,660,887)
Student loans receivable	(175,514)	180,000	4,486
Capital improvement bond receivable - non-capital	7,545	-	7,545
Inventories	224,903	-	224,903
Prepaid items	(410,025)	-	(410,025)
Accounts payable	3,167,306	3,857,291	7,024,597
Retainage payable - non-capital	(86,607)	-	(86,607)
Accrued payroll	1,382,388	115,947	1,498,335
Accrued benefits	90,485	-	90,485
Accrued annual leave and related liabilities	1,336,237	79,901	1,416,138
Deferred revenues	2,033,619	-	2,033,619
Deposits	120,244	-	120,244
Other liabilities	101,122	(462,922)	(361,800)
Funds held for others	(3,051,353)	-	(3,051,353)
Net cash provided (used) by operating activities	\$ (140,490,804)	\$ 3,188,011	\$ (137,302,793)
NONCASH TRANSACTIONS			
Gifts of capital assets reducing proceeds of capital grants and gifts	\$ 490,330	\$ -	\$ 490,330
Capitalized interest reducing interest paid on capital asset related debt	\$ 548,150	\$ -	\$ 548,150
Change in value of investments recognized in endowment income	\$ 727,411	\$ -	\$ 727,411
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	\$ 97,450	\$ -	\$ 97,450
Student loans cancelled	\$ 292,260	\$ -	\$ 292,260
Change in value of investments recognized in investment income	\$ -	\$ 1,253,380	\$ 1,253,380

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Governmental Discretely Presented Component Unit
Statement of Net Assets
June 30, 2010

	University of South Carolina Research Foundation
ASSETS	
Current assets	
Cash and cash equivalents	\$ 896,222
Restricted cash and cash equivalents	38,784,956
Accounts receivable	16,115,202
Prepaid expenses and deposits	<u>63,997</u>
Total current assets	<u>55,860,377</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	126,333
Total noncurrent assets	<u>126,333</u>
Total assets	<u>55,986,710</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	30,975,898
Deferred revenue	<u>23,689,770</u>
Total current liabilities	<u>54,665,668</u>
Total liabilities	<u>54,665,668</u>
NET ASSETS	
Invested in capital assets, net of related debt	15,162
Restricted - expendable for research	297,712
Unrestricted	<u>1,008,168</u>
Total net assets	<u><u>\$ 1,321,042</u></u>

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2010

	University of South Carolina Research Foundation
REVENUES	
Operating revenues	
Federal grants and contracts	\$ 99,703,942
Nongovernmental grants and contracts	53,882,189
Management fees and recoveries	20,665,028
Royalty income	47,644
Rental income	141,600
Other operating revenues	<u>212,450</u>
Total operating revenues	<u>174,652,853</u>
EXPENSES	
Operating Expenses	
Salaries and benefits	1,169,778
Services and supplies	1,327,571
Research and development direct costs	<u>171,363,150</u>
Total operating expenses	<u>173,860,499</u>
Operating income	<u>792,354</u>
NONOPERATING REVENUES (EXPENSES)	
Private gifts and donations	(579,426)
Interest income	<u>71,665</u>
Net nonoperating expenses	<u>(507,761)</u>
Change in net assets	284,593
Net assets at beginning of year	<u>1,036,449</u>
Net assets at end of year	<u><u>\$ 1,321,042</u></u>

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Financial Position

	June 30, 2010					December 31, 2009	
	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	USC Upstate Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS							
Cash and cash equivalents	\$ 5,959,481	\$ 3,280,838	\$ 6,184,884	\$ 3,181,230	\$ 3,646,962	\$ 100,175	\$ 22,353,570
Investments	15,658,005	195,763,863	32,704,501	3,557,438	11,190,157	4,770,536	263,644,500
Real estate held for investment	30,254,099	2,133,953	-	-	-	-	32,388,052
Assets held in trust	-	56,466,778	-	-	145,708	-	56,612,486
Accounts receivable	220,475	794,627	278,785	927,254	172,613	-	2,393,754
Contributions receivable, net	3,076,572	17,677,689	4,841,988	-	8,606,447	815,168	35,017,864
Prepaid expenses	16,293	-	8,514	242,163	532,299	-	799,269
Other assets	476,953	-	104,221	29,649	6,296	-	617,119
Fixed assets, net of depreciation	16,871,899	38,598	-	94,190	29,848,452	1,945,160	48,798,299
Total assets	\$ 72,533,777	\$ 276,156,346	\$ 44,122,893	\$ 8,031,924	\$ 54,148,934	\$ 7,631,039	\$ 462,624,913
LIABILITIES							
Accounts payable	\$ 2,424,850	\$ 7,696,828	\$ 464,321	\$ 178,708	\$ 2,428,786	\$ 16,461	\$ 13,209,954
Deferred revenues	-	-	11,945	2,034	-	-	13,979
Bonds and notes payable	40,467,598	19,973,699	-	-	32,893,854	-	93,335,151
Other liabilities	17,866	-	-	-	2,675,777	-	2,693,643
Total liabilities	42,910,314	27,670,527	476,266	180,742	37,998,417	16,461	109,252,727
NET ASSETS							
Unrestricted	6,506,289	7,004,432	4,492,375	5,799,024	(1,813,077)	375,974	22,365,017
Temporarily restricted	19,751,246	85,257,128	17,036,703	2,052,158	14,680,186	990,122	139,767,543
Permanently restricted	3,365,928	156,224,259	22,117,549	-	3,283,408	6,248,482	191,239,626
Total net assets	29,623,463	248,485,819	43,646,627	7,851,182	16,150,517	7,614,578	353,372,186
Total liabilities and net assets	\$ 72,533,777	\$ 276,156,346	\$ 44,122,893	\$ 8,031,924	\$ 54,148,934	\$ 7,631,039	\$ 462,624,913

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	June 30, 2010					December 31, 2009	
	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	USC Upstate Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS:							
Revenues, gains and other support							
Contributions	\$ 39,869	\$ 9,464,679	\$ 452,333	\$ 1,460,635	\$ 573,997	\$ 8,125	\$ 11,999,638
Investment Income	233,730	3,319,821	109,358	127,191	103,717	99,477	3,993,294
Net realized and unrealized gains(losses)	1,581,285	16,619,376	459,252	384,962	414,713	-	19,459,588
Earned income	3,084,369	-	1,067,683	1,112,870	831,902	6,000	6,102,824
Miscellaneous income	1,238,809	586,796	-	-	3,310	-	1,828,915
Gain (loss) on disposal of assets	(10,000)	-	-	-	(2,400)	-	(12,400)
Net assets released from restrictions:							
Restrictions satisfied by payments	1,444,418	-	-	(419,419)	-	695,634	1,720,633
Satisfaction of program restrictions	-	6,352,861	3,819,012	-	3,048,538	-	13,220,411
Expiration of time restrictions	-	(605,660)	-	-	-	-	(605,660)
Total revenues, gains and other support	7,612,480	35,737,873	5,907,638	2,666,239	4,973,777	809,236	57,707,243
Expenses							
Scholarships and student assistance	-	9,251,363	601,116	420,000	86,680	83,182	10,442,341
Program services	-	11,653,862	3,706,886	1,677,274	1,234,264	516,136	18,788,422
Supporting services	7,630,481	4,123,123	306,415	742,358	2,555,664	121,483	15,479,524
Total expenses	7,630,481	25,028,348	4,614,417	2,839,632	3,876,608	720,801	44,710,287
Excess revenues over (under) expenses	(18,001)	10,709,525	1,293,221	(173,393)	1,097,169	88,435	12,996,956
Interest rate swap fair value adjustment	-	-	-	-	(1,087,514)	-	(1,087,514)
Change in unrestricted net assets	(18,001)	10,709,525	1,293,221	(173,393)	9,655	88,435	11,909,442

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	June 30, 2010					December 31, 2009	
	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	USC Upstate Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS							
Contributions	2,953,285	9,609,937	3,740,970	95,525	5,016,612	1,124,499	22,540,828
Investment Income	5,355	740,021	458,479	-	-	-	1,203,855
Net realized and unrealized gains(losses)	52,790	2,989,013	2,762,287	-	384,021	-	6,188,111
Other	5,288	1,295	-	315,460	219,768	-	541,811
Net assets released from restrictions:							
Restrictions satisfied by payments	(1,444,418)	-	-	419,419	-	(221,120)	(1,246,119)
Satisfaction of program restrictions	-	(6,324,893)	(2,998,477)	-	(3,048,538)	-	(12,371,908)
Expiration of time restrictions	-	(2,101,095)	-	-	-	-	(2,101,095)
Change in temporarily restricted net assets	<u>1,572,300</u>	<u>4,914,278</u>	<u>3,963,259</u>	<u>830,404</u>	<u>2,571,863</u>	<u>903,379</u>	<u>14,755,483</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS							
Contributions	-	6,992,426	556,732	-	35,353	415,023	7,999,534
Other	-	-	-	-	-	1,147,300	1,147,300
Net assets released from restrictions:							
Satisfaction of program restrictions	-	(27,968)	(820,535)	-	-	(474,514)	(1,323,017)
Expiration of time restrictions	-	2,706,755	-	-	-	-	2,706,755
Change in permanently restricted net assets	<u>-</u>	<u>9,671,213</u>	<u>(263,803)</u>	<u>-</u>	<u>35,353</u>	<u>1,087,809</u>	<u>10,530,572</u>
Change in net assets	<u>1,554,299</u>	<u>25,295,016</u>	<u>4,992,677</u>	<u>657,011</u>	<u>2,616,871</u>	<u>2,079,623</u>	<u>37,195,497</u>
NET ASSETS, BEGINNING OF YEAR	<u>28,069,164</u>	<u>223,190,803</u>	<u>38,653,950</u>	<u>7,194,171</u>	<u>13,533,646</u>	<u>5,534,955</u>	<u>316,176,689</u>
NET ASSETS, END OF YEAR	<u>\$ 29,623,463</u>	<u>\$ 248,485,819</u>	<u>\$ 43,646,627</u>	<u>\$ 7,851,182</u>	<u>\$ 16,150,517</u>	<u>\$ 7,614,578</u>	<u>\$ 353,372,186</u>

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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 (GASB) 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* 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 system 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 (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. 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 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. 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.

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office 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, debt service reserve 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 rent, 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 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 invested debt proceeds associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2010 was \$548,150.

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

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 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 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 is 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 including federal grants and contract 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 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

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

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 if 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's rebatable arbitrage liability at June 30, 2010 is \$ 470,000.

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 blended 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)	\$ 365,902,940	Cash on hand	\$ 318,817
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	479,068,223
Debt service	10,313,275	Other deposits	140,941
Capital projects	66,376,895	Blended component unit deposits	5,298,625
Restricted cash and cash equivalents (non-current):		Investments held by State Treasurer	2,168,733
Endowments	38,552,234	Other investments	3,264,590
Federal student loans	1,683,274	Blended component unit investments	6,307,249
Debt service reserve	1,997,988		
Investments (current)	6,307,249		
Investments (non-current)	5,433,323		
	<u>\$ 496,567,178</u>		<u>\$ 496,567,178</u>

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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 or were fully collateralized by securities held by the pledging bank's trust department.

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.

Other investments totaling \$3,072,590 were collateralized by securities held by the pledging bank's trust department but not in the University's name.

The net change in unrealized appreciation of investments for the current fiscal year decreased in the amount of \$727,411.

Blended Component Unit Deposits

The Trust's general ledger cash and cash equivalents balance includes cash on deposit with financial institutions of \$5,298,625. At December 31, 2009, the Trust's bank balances had demand deposits and sweep accounts totaling \$8,386,666. Of these amounts, approximately \$6,606,000 exceeded the limits of federal depository insurance (FDIC).

Of the amount exceeding federal depository insurance limits, \$6,252,000 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. Management does not believe that significant credit risk is associated with its banking relationships.

Blended Component Unit Investments

Investments of the the Trust consist of long-term certificates of deposit, equity and debt securities, and mutual funds. Investments are carried at fair value.

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 2,661,623	\$ 3,203,513
Mutual funds	1,176,972	1,092,900
Money market funds	554,821	554,821
Other debt instruments	<u>1,441,059</u>	<u>1,456,015</u>
	<u>\$ 5,834,475</u>	<u>\$ 6,307,249</u>

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Notes to the Financial Statements

The net change in unrealized appreciation of investments for the current year decreased in the amount of \$1,253,380.

Of the total cash and cash equivalents for the Trust, \$141,066 was held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2010.

The difference in reported book balance and the bank for 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:

Students and sponsors	\$ 11,398,788
Auxiliary enterprises	3,380,658
Federal grants and contracts	20,807,382
State grants and contracts	543,823
Local grants and contracts	137,051
Non-governmental grants and contracts	2,853,147
Accrued interest	5,099,288
Blended component unit	5,077,478
	<hr/>
	49,297,615
Less allowance for doubtful accounts	(1,014,017)
Accounts receivable, net	<u><u>\$ 48,283,598</u></u>

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

Patients Accounts Receivable

The Trust, 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.

Patient's accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 4,495,000
Less estimated uncollectible charges	(1,425,000)
Patient accounts receivable, net	<u><u>\$ 3,070,000</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.

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 assigned to the federal agency administering the loan programs.

Capital Improvement, Infrastructure Bonds and Capital Reserve Fund Appropriation Receivable

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

The State has authorized capital improvement bonds, research infrastructure bonds, state university infrastructure bonds and capital reserve fund appropriation 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.

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Notes to the Financial Statements

The University has \$14,465,845 of outstanding state capital improvement bond authorization, \$2,463,779 of outstanding research infrastructure bond authorization, \$252,837 of outstanding state university infrastructure bond authorization and \$137,943 of capital reserve fund appropriation 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 \$3,391,505 respectively are included in the Notes Receivable, and Accounts Receivable, net.

Note 4 - Capital Assets

	June 30, 2009	Restatement	June 30, 2009 Restated	Additions	Reductions	June 30, 2010
Capital assets not being depreciated						
Land and improvements	\$ 75,629,597	\$ -	\$ 75,629,597	\$ 245,000	\$ -	\$ 75,874,597
Construction in progress	85,646,026	-	85,646,026	44,729,397	92,779,856	37,595,567
Works of art and historical treasurers	<u>18,569,367</u>	<u>-</u>	<u>18,569,367</u>	<u>426,350</u>	<u>-</u>	<u>18,995,717</u>
Total capital assets not being depreciated	<u>179,844,990</u>	<u>-</u>	<u>179,844,990</u>	<u>45,400,747</u>	<u>92,779,856</u>	<u>132,465,881</u>
Other capital assets						
Land improvements	85,518,901	(19,167,964)	66,350,937	1,813,491	-	68,164,428
Buildings and improvements	1,130,036,198	48,967,964	1,179,004,162	91,908,218	-	1,270,912,380
Machinery, equipment and other	141,091,073	-	141,091,073	13,889,488	4,826,526	150,154,035
Vehicles	11,338,239	-	11,338,239	304,267	91,043	11,551,463
Intangibles	5,975,307	-	5,975,307	-	2,494,572	3,480,735
Blended component unit						
Buildings and improvements	17,352,211	-	17,352,211	304,147	-	17,656,358
Medical and office equipment	<u>6,364,337</u>	<u>-</u>	<u>6,364,337</u>	<u>1,128,687</u>	<u>601,327</u>	<u>6,891,697</u>
Total capital assets at historical cost	<u>1,397,676,266</u>	<u>29,800,000</u>	<u>1,427,476,266</u>	<u>109,348,298</u>	<u>8,013,468</u>	<u>1,528,811,096</u>
Less accumulated depreciation for						
Land improvements	13,526,495	(2,300,156)	11,226,339	2,545,926	-	13,772,265
Buildings and improvements	417,942,591	3,045,156	420,987,747	34,757,688	-	455,745,435
Machinery, equipment and other	102,540,700	-	102,540,700	10,838,893	4,078,195	109,301,398
Vehicles	8,310,179	-	8,310,179	874,062	91,043	9,093,198
Intangibles	5,028,315	-	5,028,315	307,164	2,494,572	2,840,907
Blended component unit						
Buildings and improvements	5,435,100	-	5,435,100	559,849	-	5,994,949
Medical and office equipment	<u>5,255,376</u>	<u>-</u>	<u>5,255,376</u>	<u>535,592</u>	<u>600,706</u>	<u>5,190,262</u>
Total accumulated depreciation	<u>558,038,756</u>	<u>745,000</u>	<u>558,783,756</u>	<u>50,419,174</u>	<u>7,264,516</u>	<u>601,938,414</u>
Other capital assets, net	<u>839,637,510</u>	<u>29,055,000</u>	<u>868,692,510</u>	<u>58,929,124</u>	<u>748,952</u>	<u>926,872,682</u>
Capital assets, net	<u>\$ 1,019,482,500</u>	<u>\$ 29,055,000</u>	<u>\$ 1,048,537,500</u>	<u>\$ 104,329,871</u>	<u>\$ 93,528,808</u>	<u>\$ 1,059,338,563</u>

The loss on disposal of capital assets consisted of the following:

Proceeds from sale of capital assets	\$ 31,272
Net book value of capital assets disposed	<u>(748,952)</u>
	<u>\$ (717,680)</u>

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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 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, 2006, employees participating in the SCRS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2008, the employer contribution rate became 12.74 percent which included a 3.5 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, 2010, 2009, and 2008, were \$22,038,000, \$22,400,000, and \$22,235,000, respectively, and equaled the required contributions of 9.24 percent (excluding the surcharge) for

each year. Also, the University paid employer group-life insurance contributions of \$358,000 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, 2008, the employer contribution rate became 14.15 percent which, as for the SCRS, includes the 3.50 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2010, 2009, and 2008 were \$495,000, \$476,600, and \$445,600, respectively, and equaled the required contributions of 10.65 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$9,300 and accidental death insurance contributions of \$9,300 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.

UNIVERSITY OF SOUTH CAROLINA

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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, 9.24 percent plus the retiree surcharge of 3.50 percent from the employer in fiscal year 2010.

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 \$14,669,000 (excluding the surcharge) from the University as employer and \$10,319,000 from its employees as plan members. In fiscal year 2010, the University paid \$238,000 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. 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 disability retirement benefits.

Blended Component Unit

The Trust provides a defined contribution plan covering all faculty participants in the Trust. 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 year ended December 31, 2009 amounted to \$1,525,000 and is included as a component of personal services and related expenses.

Note 6 - Postemployment And Other Employee Benefits

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate

UNIVERSITY OF SOUTH CAROLINA
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assessed each year by the Office of the State Budget, 3.50% of annual covered payroll for 2009 and 2010. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately \$14,067,000 and \$14,216,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2010 and 2009, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2010 and 2009.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

Note 8 - Lease Obligations

The future minimum lease payments for noncancelable operating leases are as follows:

Real Property Operating Leases

	External Parties	Other State Agencies	Total
2011	\$ 463,818	\$ 13,157	\$ 476,975
2012	227,632	-	227,632
2013	169,788	-	169,788
2014	106,452	-	106,452
2015	106,452	-	106,452
Total minimum lease payments	<u>\$ 1,074,142</u>	<u>\$ 13,157</u>	<u>\$ 1,087,299</u>

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 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 \$47,836,689 for capital and \$61,145,687 for noncapital projects. 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.

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The payment schedule on the previous page relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2011-2015. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$1,806,947 for fiscal year 2010. Of this amount, \$262,844 was paid to other State agencies. In the current fiscal year, the University

incurred expenses of \$1,263,115 for office copier contingent rentals on a cost per copy basis.

The University also has a 35-year operating 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.

Capital Leases

Buildings and land held by the University as of June 30, 2010:

	Value at Lease Inception	Accumulated Depreciation	Net
Buildings	\$ 30,193,703	\$ 1,526,370	\$ 28,667,333
Land	245,000	-	245,000

The future minimum capital lease obligations and the net present value of the minimum capital lease payments are as follows:

2011	\$ 1,471,518
2012	1,485,797
2013	1,479,185
2014	1,490,413
2015	1,460,878
2016-2031	20,517,177
Total minimum lease payments	27,904,968
Less amount representing interest	9,963,221
Present value of minimum lease payments	<u><u>\$ 17,941,747</u></u>

Capital lease obligations consists of :

Agreement with USC Upstate Foundation for land and building, dated February 2010, payable in monthly principal payments of \$ 6,500, with a fixed interest rate of 4.11%. This agreement expires in December 2019.

\$ 612,606

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 with interest rates from 5.085% to 6.815%. This agreement expires in March 2031.

17,329,141
\$ 17,941,747

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Note 9 - Short-Term Debt

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 2010, \$17,600,000 athletic facilities revenue BANS Series 2009A was issued to refinance a portion of the balance of athletic facilities revenue BANS series 2008A. Short-term debt activity was as follows:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>
Revenue BANS	\$ 19,600,000	\$ 17,600,000	\$ 19,600,000	\$ 17,600,000
Total Short-Term Debt	\$ 19,600,000	\$ 17,600,000	\$ 19,600,000	\$ 17,600,000

Note 10 - Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
State Institution Bonds			
Series 1996B	5.0%	04/01/16	\$ 12,805,000
Series 2001B	4.5% to 5.0%	07/01/21	23,945,000
Series 2002E	3.25% to 5.0%	09/01/22	12,880,000
Series 2003I	3.5% to 4.625%	10/01/23	5,560,000
Series 2006B	3.25% to 5.25%	04/01/26	48,770,000
Series 2009B	3.0% to 5.0%	04/01/29	8,170,000
Total State Institution Bonds			<u>112,130,000</u>
Revenue Bonds			
Series 1999A	4.60% to 5.0%	06/01/19	2,800,000
Series 2002 Athletic	4.375% to 5.5%	05/01/32	18,220,000
Series 2003B	3.25% to 4.25%	05/01/23	3,930,000
Series 2004A	3.5% to 5.375%	05/01/34	27,430,000
Series 2005A	3.0% to 5.0%	05/01/35	11,255,000
Series 2005A Refunding	4.0% to 5.0%	06/01/30	41,015,000
Series 2006A	4.0% to 4.375%	06/01/26	11,990,000
Series 2008A	3.25% to 5.25%	06/01/38	63,005,000
Series 2008A Athletic	4.0% to 5.5%	05/01/38	27,395,000
Series 2008B Athletic	5.4%	05/01/13	1,560,000
Series 2009A	2.75% to 5.0%	06/01/39	28,385,000
Series 2010A	3.0% to 5.0%	06/01/40	28,510,000
Total Revenue Bonds			<u>265,495,000</u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>6,800,000</u>
Total Bonds Payable			<u>\$ 384,425,000</u>

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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.

Tuition fees used to calculate the University's debt service limit on bonded indebtedness for the preceding year were \$21,687,512, which results in a legal annual debt service at June 30, 2010 of \$19,518,761. The annual debt service payments for the fiscal year were \$11,912,102. Tuition revenue pledged in fiscal year 2010 was \$23,074,042 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the University from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from 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 2010 were \$14,482,165.

Athletic facilities revenue bonds are payable from 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 2010 were \$1,497,605 special student fees, \$1,803,288 special admission fee and \$ 2,709,748 athletic department revenues.

The University has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event 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.

The University believes it is in compliance with all related bond covenants of its issued debt.

During the current fiscal year, the University issued revenue bonds in the amount of \$28,510,000 for the renovations of student housing facilities.

The advanced refunded maturities of certain bonds are considered defeased and the liability for these bonds has been removed from the University's financial statements. There are no bonds outstanding that are considered defeased.

The blended component unit revenue bonds are limited obligations of the Trust. The terms of indebtedness provide that bondholders may redeem, or put, the bonds to the remarketing agent on dates that 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 Trust 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, 2009, the average interest rate on the bonds was 1.49%.

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

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

2010	\$ 425,000
2011	425,000
2012	425,000
2013	425,000
2014	425,000
2015-2019	2,125,000
2020-2024	2,125,000
2025	<u>425,000</u>
	<u>\$ 6,800,000</u>

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

	Principal	Interest	Total
State Institution Bonds			
2011	\$ 6,920,000	\$ 4,989,580	\$ 11,909,580
2012	7,230,000	4,664,380	11,894,380
2013	7,570,000	4,345,574	11,915,574
2014	7,925,000	3,987,783	11,912,783
2015	8,295,000	3,609,417	11,904,417
2016-2020	36,690,000	12,312,643	49,002,643
2021-2025	31,145,000	4,043,308	35,188,308
2026-2029	6,355,000	391,087	6,746,087
Total	<u>\$ 112,130,000</u>	<u>\$ 38,343,772</u>	<u>\$ 150,473,772</u>
	Principal	Interest	Total
Revenue Bonds			
2011	\$ 7,220,000	\$ 12,509,015	\$ 19,729,015
2012	7,555,000	12,196,843	19,751,843
2013	7,880,000	11,886,735	19,766,735
2014	8,200,000	11,566,361	19,766,361
2015	8,570,000	11,202,611	19,772,611
2016-2020	43,860,000	50,447,430	94,307,430
2021-2025	51,110,000	40,134,821	91,244,821
2026-2030	51,550,000	27,963,938	79,513,938
2031-2035	48,410,000	15,335,438	63,745,438
2036-2040	31,140,000	3,865,375	35,005,375
Total	<u>\$ 265,495,000</u>	<u>\$ 197,108,567</u>	<u>\$ 462,603,567</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

Notes Payable

Notes payable consisted of the following:

University note payable secured by energy management equipment, dated July, 2004, payable in varying semi-annual principal and interest payments, matures July, 2011, fixed interest rate of 3.9695%.	\$ 20,230,000
University note payable to acquire energy savings lighting retrofit, dated December, 2004, payable in annual installments of \$130,719, matures December, 2012, fixed interest rate of 1.00%.	384,405
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, fixed interest rate of 4.0%.	12,386,783
University note payable secured by athletic ticketing system, dated February, 2008, payable in annual installments of \$90,727, matures February, 2011, fixed interest rate of 5.908%.	85,665
University note payable secured by printing press equipment, dated September, 2007, payable in semi-annual installments of \$43,008, matures September, 2014, fixed interest rate of 3.6%.	354,384
University note payable to acquire rare literary collection, dated January, 2008, payable in annual installments of \$25,000, matures January, 2012, imputed fixed interest rate of 3.58%.	47,438
University note payable secured by stadium lighting, dated July, 2008, payable in annual installments of \$117,743, matures July, 2012, fixed interest rate of 3.61%.	329,180
University note payable to acquire rare Indian pottery collection, dated December, 2008, payable in annual installments of \$31,458, matures December, 2012, imputed fixed interest rate of 2.15%.	175,486
University note payable to acquire energy savings equipment and lighting retrofit, dated December, 2008, payable in annual installments of \$51,581 subject to amount drawn at any given time, matures April, 2017, fixed interest rate of 3.00%.	273,360
	<u><u>\$ 34,266,701</u></u>

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,673,392	\$ 1,307,221	\$ 4,980,613
2012	19,549,360	849,011	20 398,371
2013	10,674,170	436,756	11,110,926
2014	153,745	15,340	169,085
2015	115,621	10,455	126,076
2016 - 2017	<u>100,413</u>	<u>13,502</u>	<u>113,915</u>
Total	<u>\$ 34,266,701</u>	<u>\$ 2,632,285</u>	<u>\$ 36,898,986</u>

Note 11 - Long-Term Liabilities

Long-term liability activity was as follows:

	<u>June 30, 2009</u>	<u>Restatement</u>	<u>June 30, 2009 Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Bonds and notes payable and capital lease obligations							
State institution bonds	\$ 118,800,000	\$ -	\$ 118,800,000	\$ -	\$ 6,670,000	\$ 112,130,000	\$ 6,920,000
Revenue bonds	243,430,000	-	243,430,000	28,510,000	6,445,000	265,495,000	7,220,000
Blended component unit revenue bonds	<u>7,225,000</u>	<u>-</u>	<u>7,225,000</u>	<u>-</u>	<u>425,000</u>	<u>6,800,000</u>	<u>425,000</u>
	369,455,000	-	369,455,000	28,510,000	13,540,000	384,425,000	14,565,000
Add: unamortized bond premiums	3,707,684	-	3,707,684	1,588,301	167,010	5,128,975	220,051
Less: unamortized bond discounts	507,791	-	507,791	-	28,378	479,413	18,057
Less: unamortized loss on bond refunding	<u>2,357,559</u>	<u>-</u>	<u>2,357,559</u>	<u>-</u>	<u>136,502</u>	<u>2,221,057</u>	<u>136,502</u>
Total bonds payable	370,297,334	-	370,297,334	30,098,301	13,542,130	386,853,505	14,630,492
Notes payable	37,784,981	-	37,784,981	230,283	3,748,563	34,266,701	3,673,392
Capital lease obligations	-	17,749,142	17,749,142	638,703	446,098	17,941,747	493,828
Blended component unit capital lease obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>747,510</u>	<u>106,453</u>	<u>641,057</u>	<u>120,583</u>
Total bonds, notes and capital leases	<u>408,082,315</u>	<u>17,749,142</u>	<u>425,831,457</u>	<u>31,714,797</u>	<u>17,843,244</u>	<u>439,703,010</u>	<u>18,918,295</u>
Other liabilities							
Accrued compensated absences	26,050,389	-	26,050,389	13,049,301	11,633,163	27,466,527	13,914,181
Retainage payable	4,139,776	-	4,139,776	791,777	4,071,181	860,372	809,430
Deferred revenues	29,324,366	77,180	29,401,546	30,477,707	28,299,367	31,579,886	30,554,886
Federal loan funds	<u>18,372,205</u>	<u>-</u>	<u>18,372,205</u>	<u>-</u>	<u>134,525</u>	<u>18,237,680</u>	<u>-</u>
Total other liabilities	<u>77,886,736</u>	<u>77,180</u>	<u>77,963,916</u>	<u>44,318,785</u>	<u>44,138,236</u>	<u>78,144,465</u>	<u>45,278,497</u>
Total long-term liabilities	<u>\$ 485,969,051</u>	<u>\$ 17,826,322</u>	<u>\$ 503,795,373</u>	<u>\$ 76,033,582</u>	<u>\$ 61,981,480</u>	<u>\$ 517,847,475</u>	<u>\$ 64,196,792</u>

Additional information regarding bonds and notes payable is included at Note 10.

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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 USC Upstate Foundation; the University of South Carolina Development Foundation; the Educational Foundation of the University of South Carolina - Lancaster; and the University of South Carolina Research 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.

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 \$156,224,259 or 63% 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 \$22,117,549 or 51% 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 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 provides 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 USC Upstate Foundation 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. 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 \$32,893,854 which exists to provide capital assets for the University. Complete financial statements for the Foundation can be obtained at USC Upstate 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

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

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 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 Finance and Budgeting, 208 Osborne Building, USC, Columbia, SC 29208.

Various transactions occur between the University and the component units. A summary of those transactions follows:

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 \$16,629,836 due from the University of South Carolina Research Foundation at June 30, 2010.

Funds Paid to Component Units

USC Development Foundation	\$ 899,815
USC Educational Foundation	71,509
USC Business Partnership Foundation	5,250
USC Research Foundation	32,098
USC Upstate Foundation	<u>45,046</u>
	<u>\$ 1,053,718</u>

Funds Received from Component Units

USC Upstate Foundation	\$ 459,430
USC Development Foundation	580,103
USC Business Partnership Foundation	503,215
USC Educational Foundation	17,984,848
Greater USC Alumni Association	962,151
Educational Foundation of USC Lancaster	262,922
USC Research Foundation	<u>110,302,633</u>
	<u>\$ 131,055,302</u>

UNIVERSITY OF SOUTH CAROLINA

Notes to the Financial Statements

Note 13 - Risk Management

The University has a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board, Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

Title 1 - Administration of Government, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

Title 1 - Administration of Government: Section 1-11-147. Automobile Liability Reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

Title 10 - Public Buildings and Property: Section 10-7-12. Authority to purchase reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

Title 11 - Public Finance: Section 11-9-75. Debt Collection Procedures.

Title 15 - Civil Remedies and Procedures: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

Title 38 - Insurance: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

Title 59 - Education: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

Title 59 - Education: Section 59-67-790. Pupil Injury Fund.

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the University's insurance coverage in any of the past three years.

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the University include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, Risk management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

Note 14 - Operating Expenses By Function

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 207,193,101	\$ 56,362,351	\$ 27,029,448	\$ 15,339	\$ 666,389	\$ -	\$ 291,266,628
Research	59,697,971	18,743,196	30,818,540	12,078	497,633	-	109,769,418
Public service	32,465,292	7,982,065	12,744,380	11,592	460,950	-	53,664,279
Academic support	35,284,450	7,743,180	25,839,658	-	22,991	-	68,890,279
Student services	25,821,697	6,571,049	16,502,260	699,777	415,731	-	50,010,514
Institutional support	34,926,438	10,849,210	1,163,263	134,889	16,327	-	47,090,127
Operation and plant maintenance	24,189,864	7,216,125	29,687,688	20,049,663	2,546	-	81,145,886
Auxiliary enterprises	30,800,606	7,278,172	52,975,144	7,138,216	772,277	-	98,964,415
Scholarships and fellowships	87,002	1,186,615	283,416	-	18,523,430	-	20,080,463
Blended component unit	41,260,980	-	20,815,555	-	-	1,095,441	63,171,976
Depreciation	-	-	-	-	-	49,323,733	49,323,733
Total operating expenses	<u>\$ 491,727,401</u>	<u>\$ 123,931,963</u>	<u>\$ 217,859,352</u>	<u>\$ 28,061,554</u>	<u>\$ 21,378,274</u>	<u>\$ 50,419,174</u>	<u>\$ 933,377,718</u>

Note 15 - Endowments and Similar Funds

The University's endowment funds and type consist of the following:

Net Asset Classification	True Endowment	Quasi Endowment	Annuity & Life Endowment	Total
Restricted - Nonexpendable	\$ 48,147,932	\$ -	\$ -	\$ 48,147,932
Restricted - Expendable				
Scholarships, research, and other	-	1,918,049	-	1,918,049
Capital Projects	-	-	1,162,309	1,162,309
Unrestricted	-	27,960,410	-	27,960,410
Total	<u>\$ 48,147,932</u>	<u>\$ 29,878,459</u>	<u>\$ 1,162,309</u>	<u>\$ 79,188,700</u>

Note 16 - Subsequent Events

On September 14, 2010 the University issued \$ 65,855,000 athletic facilities revenue bonds for the construction of various athletic facilities and for the payment of the Series 2009A athletic facilities revenue bond anticipation note.

Also on September 14, 2010, the University issued \$12,840,000 athletic facilities revenue refunding bonds to partially advance refund the Series 2002A revenue bonds maturing from May 1, 2013 to May 1, 2027 and callable May 1, 2012. The refunding transactions resulted in a deferred loss on refunding of \$1,105,061, an aggregate debt payment reduction of \$1,226,421 over the next ten years and an economic gain of \$952,463.

UNIVERSITY OF SOUTH CAROLINA
Notes to the Financial Statements

Note 17 - Prior Period Restatement

During fiscal year 2008, the University entered into an agreement to construct, operate and manage two parking facilities. In fiscal year 2010, the University determined that based on the terms of the agreement, the facilities met certain criteria to be capitalized as University capital assets under generally accepted accounting principles (GAAP). The cost of the facilities had not previously been capitalized by the University. An adjustment of \$9,788,231 was required to restate prior year net assets.

The restatement to correct balances of various assets and liabilities as of June 30, 2009 are detailed below.

Net Assets, June 30, 2009 as previously reported	<u>\$ 957,289,804</u>
Correction of errors:	
Adjust prepaid items	601,214
Adjust funds due from others	(2,036,894)
Adjust capital assets, net of accumulated depreciation	29,055,000
Adjust accrued payroll and related liabilities	(4,767)
Adjust deferred revenues	(77,180)
Adjust long-term liabilities, current portion	(420,000)
Adjust long-term liabilities	<u>(17,329,142)</u>
	<u>9,788,231</u>
Net Assets, June 30, 2009, as restated	<u><u>\$ 967,078,035</u></u>

UNIVERSITY OF SOUTH CAROLINA
Schedule of Non-Capital and Capital State Appropriations
and State Stabilization Funds
For the year ended June 30, 2010

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	\$ 170,743,680
Less mid-year reductions	(15,085,938)
Supplemental Appropriations (Proviso 90.13)	3,000,000
From Commission on Higher Education	
Technology Initiative	891,019
Academic Endowment Incentive	87,805
Transfer from Department of Revenue - EIA	547,470
	<hr/>
Total non-capital appropriations recorded as current year revenue	\$ 160,184,036

Capital Appropriations

Capital Improvement Bond Proceeds:

Proceeds drawn during the current fiscal year	\$ 255,018
Plus: Expenses incurred but not drawn during current fiscal year	6,925
Less: Proceeds drawn but not expended during current fiscal year	(52,054)
	<hr/>
Total capital improvement bond proceeds recorded as current year revenue	209,889

Research Infrastructure Bond Proceeds:

Proceeds drawn during the current fiscal year	7,964,293
Plus: Expenses incurred but not drawn during current fiscal year	262,866
Less: Proceeds drawn but not expended during current fiscal year	(1,166,983)
	<hr/>
Total research infrastructure bond proceeds recorded as current year revenue	7,060,176

University Infrastructure Bond Proceeds:

Proceeds drawn during the current fiscal year	333,547
Less: Proceeds drawn but not expended during current fiscal year	-
	<hr/>
Total university infrastructure bond proceeds recorded as current year revenue	333,547

Capital Reserve Fund Appropriations:

Proceeds drawn during the current fiscal year	34,548
Less: Proceeds drawn but not expended during current fiscal year	(7,545)
	<hr/>
Total capital reserve fund appropriations recorded as current year revenue	27,003
	<hr/>
Total capital appropriations recorded as current year revenue	\$ 7,630,615

State Fiscal Stabilization Funds - non operating federal grant revenue

Proceeds drawn during the current fiscal year	\$ 19,513,917
Plus: Expenses incurred but not drawn during current fiscal year	1,613,126
	<hr/>
Total capital improvement bond proceeds recorded as current year revenue	\$ 21,127,043

UNIVERSITY OF SOUTH CAROLINA
Information for Statement of Activities

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

	For the years ended June 30,		Increase/ (Decrease)
	2010	2009	
University			
Charges for services	\$ 672,397,600	\$ 662,010,579	\$ 10,387,021
Operating grants and contributions	65,522,568	73,117,312	(7,594,744)
Capital grants and contributions	9,823,795	17,217,643	(7,393,848)
Less expenses	<u>(889,962,930)</u>	<u>(881,525,372)</u>	<u>(8,437,558)</u>
Net program expense	<u>(142,218,967)</u>	<u>(129,179,838)</u>	<u>(13,039,129)</u>
Additions to permanent endowments	6,446,052	17,594,036	(11,147,984)
Transfers:			
State appropriations	160,184,036	173,279,229	(13,095,193)
Federal grants	65,551,760	-	65,551,760
Capital improvement bond proceeds	7,630,615	8,496,102	(865,487)
Transfers to other state funds, net	<u>(1,295,890)</u>	<u>(1,236,687)</u>	<u>(59,203)</u>
Total additions to permanent endowments and transfers	<u>238,516,573</u>	<u>198,132,680</u>	<u>40,383,893</u>
Changes in net assets	<u>96,297,606</u>	<u>68,952,842</u>	<u>27,344,764</u>
Net assets - beginning of year, restated	<u>967,078,035</u>	<u>888,336,962</u>	<u>78,741,073</u>
Net assets - end of year	<u>\$ 1,063,375,641</u>	<u>\$ 957,289,804</u>	<u>\$ 106,085,837</u>

	For the years ended December 31,		Increase/ (Decrease)
	2009	2008	
Trust			
Charges for services	\$ 34,685,492	\$ 32,418,516	\$ 2,266,976
Operating grants and contributions	27,183,427	22,521,010	4,662,417
Less expenses	<u>(63,506,745)</u>	<u>(55,376,716)</u>	<u>(8,130,029)</u>
Net program expense	<u>(1,637,826)</u>	<u>(437,190)</u>	<u>(1,200,636)</u>
Changes in net assets	<u>(1,637,826)</u>	<u>(437,190)</u>	<u>(1,200,636)</u>
Net assets - beginning of year	<u>16,621,009</u>	<u>17,058,199</u>	<u>(437,190)</u>
Net assets - end of year	<u>\$ 14,983,183</u>	<u>\$ 16,621,009</u>	<u>\$ (1,637,826)</u>