



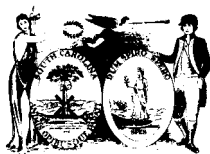
UNIVERSITY OF SOUTH CAROLINA

Financial Statements and Schedules

June 30, 2005

(With Independent Auditors' Report Thereon)

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

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STATE AUDITOR

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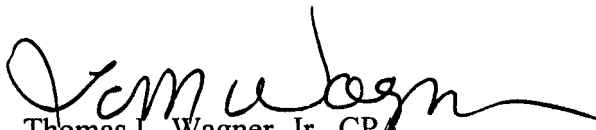
October 11, 2005

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

This report on the financial statements of the University of South Carolina for the fiscal year ended June 30, 2005, was issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

Independent Auditors' Report

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying statement of net assets of the business-type activities and the blended and discretely presented component units of the University of South Carolina (the University), a department of the State of South Carolina, as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows, where applicable, thereof for the year then ended, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); the University of South Carolina Research Foundation; the University of South Carolina Research Campus Foundation; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation Inc.; the Educational Foundation of the University of South Carolina – Lancaster, Inc.; and the Aiken Student Housing Foundation (collectively referred to as Foundations). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust and Foundations, are based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University are intended to present the financial position, change in financial position and, where applicable, the cash flows, of only that portion of the business-type activities, and blended and discretely presented component units of the State of South Carolina that is attributable

to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2005, the changes in its financial position or where applicable, its cash flows, thereof 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 respective financial position of the business-type activities, and the blended and discretely presented component units as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows of the University of South Carolina, thereof 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 a report dated September 30, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on accompanying pages 3 thru 6 is not a required part of the basic financial statements but is supplementary information required by 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 appropriations, capital improvement bond proceeds and statement of activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 30, 2005

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 2005. While audited financial statements for fiscal year 2004 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the primary institution – the University of South Carolina – and will not include its blended component unit – the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan. Neither will this discussion include the discretely presented component units – the University of South Carolina’s Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, Research Campus Foundation, the Carolina Piedmont Foundation, the Lancaster County Foundation, and the Aiken Housing Foundation.

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

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

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

Summary of Net Assets

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

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

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

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

Summary of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 255,201,854	\$ 226,444,887	\$ 28,756,967	12.70%
Capital Assets, Net	705,636,521	663,449,011	42,187,510	6.36%
Other Assets	<u>53,992,973</u>	<u>50,272,146</u>	<u>3,720,827</u>	7.40%
Total Assets	<u>1,014,831,348</u>	<u>940,166,044</u>	<u>74,665,304</u>	7.94%
Liabilities				
Current Liabilities	88,705,901	113,231,208	(24,525,307)	(21.66%)
Noncurrent Liabilities	<u>267,436,281</u>	<u>185,083,489</u>	<u>82,352,792</u>	44.49%
Total Liabilities	<u>356,142,182</u>	<u>298,314,697</u>	<u>57,827,485</u>	19.38%
Net Assets				
Invested in capital assets, net of related debt	452,227,107	459,928,243	(7,701,136)	(1.67%)
Restricted - nonexpendable	14,867,303	11,895,005	2,972,298	24.99%
Restricted - expendable	43,718,637	26,197,579	17,521,058	66.88%
Unrestricted	<u>147,876,119</u>	<u>143,830,520</u>	<u>4,045,599</u>	2.81%
Total Net Assets	<u>\$ 658,689,166</u>	<u>\$ 641,851,347</u>	<u>\$ 16,837,819</u>	2.62%

- Total Assets of the University increased by \$74.7 million. Capital assets increased \$42.2 million, primarily due to major building projects completed and in progress. Total cash and cash equivalents increased \$35.1 million, driven by the increase in unrestricted net assets and restricted expendable net assets for capital projects.
- The decrease in Current Liabilities is attributable to a significant decrease in short term debt that was converted to long term debt.
- The \$82.4 million increase in Noncurrent Liabilities is attributable to issuance of long term bonds and notes payable and the conversion of short term debt to long term.
- Net Assets of the University increased during the year by \$16.8 million. The increase is driven largely by a \$17.5 million increase in restricted expendable net assets for capital projects due to unexpended bond and note proceeds.

Summary of Revenues, Expenses and Changes in Net Assets

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

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

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

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

provided. State capital appropriations and capital grants and gifts are considered neither operating nor non-operating revenues and are reported after “Income before other revenues, expenses, gains or losses”.

Summary of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Operating Revenues:				
Student tuition and fees	\$ 278,985,272	\$ 247,648,642	\$ 31,336,630	12.65%
Less scholarship allowance	(64,570,445)	(56,781,483)	(7,788,962)	13.72%
Federal grants and contracts	128,690,344	122,815,472	5,874,872	4.78%
State grants and contracts	59,456,363	54,292,147	5,164,216	9.51%
Local grants and contracts	701,791	920,173	(218,382)	(23.73%)
Nongovernmental grants and contracts	19,323,916	19,756,796	(432,880)	(2.19%)
Sales and services of educational and other activities	17,056,818	15,788,221	1,268,597	8.04%
Sales and services of auxiliary enterprises	76,640,024	75,347,079	1,292,945	1.72%
Less scholarship allowance	(2,573,218)	(2,598,803)	25,585	(0.98%)
Interest collected on student loans	282,689	298,210	(15,521)	(5.20%)
Other fees	5,743,772	5,948,183	(204,411)	(3.44%)
Other operating revenues	<u>3,063,506</u>	<u>3,012,848</u>	<u>50,658</u>	1.68%
Total operating revenues	<u>522,800,832</u>	<u>486,447,485</u>	<u>36,353,347</u>	7.47%
Operating Expenses:				
Compensation and employee benefits	461,706,311	428,645,703	33,060,608	7.71%
Services and supplies	171,563,779	147,573,608	23,990,171	16.26%
Utilities	23,073,722	20,455,611	2,618,111	12.80%
Scholarships and fellowships	47,587,874	45,211,409	2,376,465	5.26%
Depreciation expense	<u>33,096,525</u>	<u>32,732,245</u>	<u>364,280</u>	1.11%
Total operating expenses	<u>737,028,211</u>	<u>674,618,576</u>	<u>62,409,635</u>	9.25%
Operating loss	(214,227,379)	(188,171,091)	(26,056,288)	13.85%
Non-operating revenues (expenses)	<u>215,310,417</u>	<u>209,079,818</u>	<u>6,230,599</u>	2.98%
Income before other revenues, expenses, and transfers	1,083,038	20,908,727	(19,825,689)	(94.82%)
Other revenues, expenses, and transfers	<u>15,754,781</u>	<u>5,874,743</u>	<u>9,880,038</u>	168.18%
Increase in net assets	16,837,819	26,783,470	(9,945,651)	(37.13%)
Net assets at beginning of year	<u>641,851,347</u>	<u>615,067,877</u>	<u>26,783,470</u>	4.35%
Net assets at end of year	<u>\$ 658,689,166</u>	<u>\$ 641,851,347</u>	<u>\$ 16,837,819</u>	2.62%

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

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

- A net \$23.5 million increase in student tuition and fees, a \$10.4 million increase in grant and contract revenues, and a \$2.6 million increase in sales and service were largely responsible for the overall \$36.4 million increase in Operating Revenues. The increase in student tuition and fees is a result of a minor increase in enrollment and a 11 percent tuition increase. The tuition increase was necessary due to no significant increase in State appropriations and to still allow the University to meet its mission goals. The increase in grant and contract revenues are mainly attributable to increased federal and state student grants and research grants and contracts.
- Operating expenses increased \$62.4 million or 9.25 percent. The largest increases occurred in compensation and employee benefits, utilities and services and supplies. Utilities increased due to rate increases and the addition of major capital buildings. Compensation and employee benefits and services and supplies increased because of the increase in grant and contract obligations and research activities.
- The \$6.2 million increase in Non-operating revenues and expenses was primarily attributable to an increase in private gift revenues.
- State capital appropriations and other capital grants and gifts increased approximately \$7.5 million and additions to permanent endowments increased \$2.3 million.

Statement of Cash Flows

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

spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

The University placed into service a 500 bed student housing facility in the fall of 2004 and Phase I of an Energy Performance Contract began with the facility improvement measures in the areas of lighting, water, steam and mechanical controls. In the spring of 2006, two projects are scheduled to be completed. The addition to a parking garage will provide 900-1000 new parking spaces and the completion of a new 88,000 square foot building for the School of Public Health will house laboratories, computer based research facilities and smart classrooms. The University’s indebtedness consists of bonds payable of \$194,914,101, bond anticipation notes of \$9,345,000 and notes payable of \$49,150,312. During the current year, \$12,400,000 bonds were issued to fund the construction of a new parking garage and \$30,900,000 were issued to refinance a portion of the remaining balance of a bond anticipation note. There were also \$48,251,445 notes payable issued for an energy retrofitting project and several equipment acquisitions.

Economic Outlook

The economic position of the University is somewhat tied to that of the State of South Carolina. The state closed fiscal year 2005 with a funds surplus for the second time in two years. Higher Education funding from the state for fiscal year 2006 has increased approximately 5% over the 2005 funding level.

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

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

Complete financial statements for the University can be obtained from the Office of the Controller, 1600 Hampton Street, 6th floor, Columbia, SC 29208.

UNIVERSITY OF SOUTH CAROLINA

Statement of Net Assets

June 30, 2005

	University	Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 158,817,401	\$ 3,304,169	\$ 162,121,570
Investments	-	7,316,101	7,316,101
Accounts receivable, net	39,141,603	1,039,012	40,180,615
Pledges receivable	2,761,759	-	2,761,759
Student loans receivable, current	22,709	-	22,709
Patients accounts receivable, net	-	2,475,000	2,475,000
Capital improvement bonds proceeds receivable	214,705	-	214,705
Inventories	2,181,601	-	2,181,601
Prepaid items	5,270,149	-	5,270,149
Funds due from others	1,984,065	-	1,984,065
Total current assets	<u>210,393,992</u>	<u>14,134,282</u>	<u>224,528,274</u>
Noncurrent assets:			
Investments	5,320,258	-	5,320,258
Notes receivable	19,943,910	-	19,943,910
Restricted - cash and cash equivalents	52,886,817	-	52,886,817
Restricted - federal student loans receivable	18,271,718	-	18,271,718
Capital assets, net of accumulated depreciation	705,636,521	14,406,712	720,043,233
Other assets	2,378,132	-	2,378,132
Total noncurrent assets	<u>804,437,356</u>	<u>14,406,712</u>	<u>818,844,068</u>
Total assets	<u>1,014,831,348</u>	<u>28,540,994</u>	<u>1,043,372,342</u>
LIABILITIES			
Current liabilities:			
Accounts payable	16,815,428	2,402,769	19,218,197
Retainage payable - current portion	898,904	-	898,904
Accrued interest payable	2,713,199	-	2,713,199
Accrued payroll and related liabilities	8,951,613	78,576	9,030,189
Accrued compensated absences - current portion	10,455,862	709,233	11,165,095
Short - term debt	9,345,000	-	9,345,000
Long-term liabilities - current portion	8,854,913	566,656	9,421,569
Deferred revenues	25,451,192	-	25,451,192
Deposits	2,223,858	-	2,223,858
Other liabilities	349,995	-	349,995
Funds held for others	2,645,937	-	2,645,937
Total current liabilities	<u>88,705,901</u>	<u>3,757,234</u>	<u>92,463,135</u>
Noncurrent liabilities:			
Retainage payable	577,457	-	577,457
Accrued compensated absences	9,651,566	-	9,651,566
Deferred revenues	3,265,000	-	3,265,000
Federal loan funds	18,732,758	-	18,732,758
Long-term liabilities	235,209,500	8,895,023	244,104,523
Other liabilities	-	610,902	610,902
Total noncurrent liabilities	<u>267,436,281</u>	<u>9,505,925</u>	<u>276,942,206</u>
Total liabilities	<u>356,142,182</u>	<u>13,263,159</u>	<u>369,405,341</u>
Total net assets	<u>658,689,166</u>	<u>15,277,835</u>	<u>673,967,001</u>
NET ASSETS			
Invested in capital assets, net of related debt	452,227,107	4,945,033	457,172,140
Restricted for:			
Nonexpendable	14,867,303	-	14,867,303
Expendable			
Scholarships, research, instruction, and other	5,616,673	-	5,616,673
Loans	2,971,634	-	2,971,634
Capital projects	32,759,957	-	32,759,957
Debt service	2,370,373	-	2,370,373
Unrestricted	147,876,119	10,332,802	158,208,921
Total net assets	<u>\$ 658,689,166</u>	<u>\$ 15,277,835</u>	<u>\$ 673,967,001</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005

	University	Trust	Total
REVENUES			
Operating Revenues:			
Student tuition and fees (\$14,852,169 pledged as security for bonds)	\$ 278,985,272	\$ -	\$ 278,985,272
Less scholarship allowance	(64,570,445)	-	(64,570,445)
Patient services, net	-	21,582,676	21,582,676
Federal grants and contracts	128,690,344	-	128,690,344
State grants and contracts	59,456,363	-	59,456,363
Local grants and contracts	701,791	-	701,791
Nongovernmental grants and contracts	19,323,916	-	19,323,916
Sales and services of educational and other activities	17,056,818	-	17,056,818
Sales and services of auxiliary enterprises (\$10,280,935 pledged as security for bonds)	76,640,024	-	76,640,024
Less scholarship allowance	(2,573,218)	-	(2,573,218)
Interest collected on student loans	282,689	-	282,689
Other fees (\$1,997,196 pledged as security for bonds)	5,743,772	-	5,743,772
Other operating revenues	3,063,506	14,778,385	17,841,891
Total operating revenues	<u>522,800,832</u>	<u>36,361,061</u>	<u>559,161,893</u>
EXPENSES			
Operating Expenses:			
Compensation and employee benefits	461,706,311	21,215,936	482,922,247
Services and supplies	171,563,779	11,488,348	183,052,127
Utilities	23,073,722	-	23,073,722
Scholarships and fellowships	47,587,874	-	47,587,874
Depreciation expense	33,096,525	944,960	34,041,485
Total operating expenses	<u>737,028,211</u>	<u>33,649,244</u>	<u>770,677,455</u>
Operating Income (loss)	<u>(214,227,379)</u>	<u>2,711,817</u>	<u>(211,515,562)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	186,771,096	-	186,771,096
Gifts	34,036,423	-	34,036,423
Investment income	3,618,799	271,879	3,890,678
Endowment income	2,052,978	-	2,052,978
Loss on disposal of capital assets	(895,109)	-	(895,109)
Interest on capital asset related debt	(10,420,131)	(430,777)	(10,850,908)
Other nonoperating revenues	146,361	-	146,361
Net nonoperating revenues (expenses)	<u>215,310,417</u>	<u>(158,898)</u>	<u>215,151,519</u>
Income before other revenue, expenses, gains or losses	<u>1,083,038</u>	<u>2,552,919</u>	<u>3,635,957</u>
State capital appropriations	3,409,238	-	3,409,238
Capital grants and gifts	10,784,454	-	10,784,454
Additions to permanent endowments	2,822,149	-	2,822,149
Transfers to/from other state funds	(1,261,060)	-	(1,261,060)
Increase in net assets	<u>16,837,819</u>	<u>2,552,919</u>	<u>19,390,738</u>
NET ASSETS			
Net assets - beginning of year	641,851,347	12,724,916	654,576,263
Net assets - end of year	<u>\$ 658,689,166</u>	<u>\$ 15,277,835</u>	<u>\$ 673,967,001</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2005

	University	Trust	Total
Cash flows from operating activities			
Student tuition and fees	\$ 214,083,616	\$ -	\$ 214,083,616
Patient services, net		21,606,676	21,606,676
Research grants and contracts	209,512,780	-	209,512,780
Sales and services of educational and other activities	17,613,551	-	17,613,551
Sales and services of auxiliary enterprises	77,726,885	-	77,726,885
Student loans disbursed	(4,235,583)	-	(4,235,583)
Student loans collected	4,389,630	-	4,389,630
Interest collected on student loans	282,689	-	282,689
Inflows from federal family education loans	167,386,824	-	167,386,824
Outflows from federal family education loans	(167,320,013)	-	(167,320,013)
Payments to employees for services	(459,140,089)	(21,220,381)	(480,360,470)
Payments to suppliers	(193,729,156)	(12,350,070)	(206,079,226)
Payments to students for scholarships and fellowships	(47,587,874)	-	(47,587,874)
Other receipts	9,157,905	16,658,593	25,816,498
Inflows from agency funds	38,421,337	-	38,421,337
Outflows from agency funds	(36,993,945)	-	(36,993,945)
Net cash provided (used) by operating activities	<u>(170,431,443)</u>	<u>4,694,818</u>	<u>(165,736,625)</u>
Cash flows from non-capital financing activities			
State appropriations	186,771,096	-	186,771,096
Gifts for other than capital purposes	34,953,626	-	34,953,626
Additions to permanent endowments	2,822,149	-	2,822,149
Other nonoperating revenues	146,361	-	146,361
Transfers to/from other state agencies	(1,261,060)	-	(1,261,060)
Federal loan liability	(76,141)	-	(76,141)
Net cash provided by noncapital financing activities	<u>223,356,031</u>	<u>-</u>	<u>223,356,031</u>
Cash flows from capital and related financing activities			
Proceeds from capital debt	100,259,319	-	100,259,319
State capital appropriations	3,601,759	-	3,601,759
Capital grants and gifts	10,802,098	-	10,802,098
Gain on disposal of capital assets	257,863	-	257,863
Purchase and construction of capital assets	(75,238,195)	(253,225)	(75,491,420)
Principal paid on capital asset related debt	(51,030,910)	(502,114)	(51,533,024)
Interest paid on capital asset related debt	(10,095,295)	(430,777)	(10,526,072)
New cash provided by capital and related financing activities	<u>(21,443,361)</u>	<u>(1,186,116)</u>	<u>(22,629,477)</u>
Cash flows from investing activities			
Purchase of investments	(950,831)	(5,862,979)	(6,813,810)
Proceeds from the sale of investments	14,200	3,577,127	3,591,327
Investment income	2,735,671	103,898	2,839,569
Endowment income	1,851,690	-	1,851,690
Net cash provided (used) by investing activities	<u>3,650,730</u>	<u>(2,181,954)</u>	<u>1,468,776</u>
Net increase in cash and cash equivalents	35,131,957	1,326,748	36,458,705
Cash and cash equivalents, beginning of year	<u>176,572,261</u>	<u>1,977,421</u>	<u>178,549,682</u>
Cash and cash equivalents, end of year	<u>\$ 211,704,218</u>	<u>\$ 3,304,169</u>	<u>\$ 215,008,387</u>
Reconciliation of operating loss			
to net cash provided by (used in) operating activities			
Operating expenses over revenues			
Adjustments to reconcile operating loss to net cash provided (used) by operating activities	\$ (214,227,379)	2,711,817	\$ (211,515,562)
Depreciation expense	33,096,525	944,960	34,041,485
Changes in current assets and liabilities			
Accounts receivables, net	2,851,827	1,880,208	4,732,035
Patients accounts receivables, net	-	24,000	24,000
Student loans receivable	593,768	-	593,768
Capital improvement bond receivable - noncapital	15,696	-	15,696
Inventories	269,017	-	269,017
Prepaid items	(49,368)	-	(49,368)
Accounts payable	(76,841)	(772,244)	(849,085)
Retainage payable - non-capital	325,816	-	325,816
Accrued payroll and related liabilities	978,452	(7,408)	971,044
Accrued compensated absences	1,587,769	2,963	1,590,732
Deferred revenues	2,454,758	-	2,454,758
Deposits	299,403	-	299,403
Other liabilities	(45,090)	(89,478)	(134,568)
Funds held for others	1,494,204	-	1,494,204
Net cash provided by (used in) operating activities	<u>\$ (170,431,443)</u>	<u>\$ 4,694,818</u>	<u>\$ (165,736,625)</u>
Non-cash transactions:			
Gifts of capital assets reducing proceeds of capital grants and gifts	\$ 273,499	\$ -	\$ 273,499
Losses on disposal of capital assets	\$ (1,108,538)	\$ -	\$ (1,108,538)
Change in value of investments recognized in endowment income	\$ 136,357	\$ 176,245	\$ 312,602
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	\$ 51,140	\$ -	\$ 51,140
Student loans cancelled	\$ 439,721	\$ -	\$ 439,721

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Net Assets

	June 30, 2005 University of South Carolina Research Foundation	June 30, 2005 University of South Carolina Research Campus Foundation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 8,282,189	\$ 20,403	\$8,302,592
Restricted cash and cash equivalents	6,875,996	-	6,875,996
Accounts receivable	13,967,869	-	13,967,869
Prepaid expenses and deposits	13,186	-	13,186
Total current assets	<u>29,139,240</u>	<u>20,403</u>	<u>29,159,643</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>27,819</u>	<u>-</u>	<u>27,819</u>
Total noncurrent assets	<u>27,819</u>	<u>-</u>	<u>27,819</u>
Total assets	<u>29,167,059</u>	<u>20,403</u>	<u>29,187,462</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	13,309,917	38,254	13,348,171
Deferred revenue	6,951,521	-	6,951,521
Total current liabilities	<u>20,261,438</u>	<u>38,254</u>	<u>20,299,692</u>
Total liabilities	<u>20,261,438</u>	<u>38,254</u>	<u>20,299,692</u>
NET ASSETS			
Restricted - expendable for research	350,484	-	350,484
Unrestricted	8,555,137	(17,851)	8,537,286
Total net assets	<u>\$ 8,905,621</u>	<u>\$ (17,851)</u>	<u>\$ 8,887,770</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2005 University of South Carolina Research Foundation	June 30, 2005 University of South Carolina Research Campus Foundation	Total
REVENUES			
Operating revenues			
Federal grants and contracts	\$ 67,294,304	\$ -	\$ 67,294,304
Nongovernmental grants and contracts	6,267,042	500,000	6,767,042
Management fees and recoveries	15,800,519	-	15,800,519
Royalty income	40,163	-	40,163
Rental income	2,060	-	2,060
Other operating revenues	211,147	-	211,147
Total operating revenues	<u>89,615,235</u>	<u>500,000</u>	<u>90,115,235</u>
EXPENSES			
Operating Expenses			
Salaries and benefits	897,575	-	897,575
Services and supplies	732,309	520,949	1,253,258
Research and development direct costs	84,177,598	-	84,177,598
Total operating expenses	<u>85,807,482</u>	<u>520,949</u>	<u>86,328,431</u>
Operating income	<u>3,807,753</u>	<u>(20,949)</u>	<u>3,786,804</u>
NONOPERATING REVENUES (EXPENSES)			
Private gifts and donations	(2,161,718)	-	(2,161,718)
Interest income	175,507	3,098	178,605
Net nonoperating expenses	<u>(1,986,211)</u>	<u>3,098</u>	<u>(1,983,113)</u>
Change in net assets	1,821,542	(17,851)	1,803,691
Net assets at beginning of year	7,084,079	-	7,084,079
Net assets at end of year	<u>\$ 8,905,621</u>	<u>\$ (17,851)</u>	<u>\$ 8,887,770</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units

Condensed Statements of Financial Position

	June 30,2005	June 30,2005	June 30,2005	June 30,2005	June 30,2005	December 31. 2004 Educational Foundation of the	June 30,2005	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	University of South Carolina - Lancaster, Inc.	Aiken Student Housing Foundation	Total
ASSETS								
Cash and cash equivalents	\$ 3,672,864	\$ 11,404,934	\$ 2,978,173	\$ 2,799,576	\$ 688,556	\$ 27,360	\$ 1,471,908	\$ 23,043,371
Investments	15,310,408	182,235,296	25,003,868	3,316,751	4,444,300	3,697,268	-	234,007,891
Real estate held for investment	30,210,974	340,647	-	-	-	-	-	30,551,621
Assets held in trust	-	52,187,781	-	-	736,512	-	-	52,924,293
Accounts receivable	1,837,069	270,752	542,228	568,245	665	-	31,744	3,250,703
Contributions receivable, net	-	17,924,628	3,495,998	-	377,453	-	-	21,798,079
Prepaid expenses	1,229	25,502	28,615	697,268	290,751	-	299,686	1,343,051
Other assets	237,222	-	65,655	29,893	9,752	-	113,522	456,044
Fixed assets, net of depreciation	4,644,041	68,977	-	5,421	14,121,455	1,386,892	12,265,351	\$ 32,492,137
Total assets	<u>\$ 55,913,807</u>	<u>\$ 264,458,517</u>	<u>\$ 32,114,537</u>	<u>\$ 7,417,154</u>	<u>\$ 20,669,444</u>	<u>\$ 5,111,520</u>	<u>\$ 14,182,211</u>	<u>\$ 399,867,190</u>
LIABILITIES								
Accounts payable	\$ 281,993	\$ 11,871,386	\$ 287,626	\$ 436,936	\$ 708,059	\$ 5,180	\$ 83,000	\$ 13,674,180
Deferred revenues	-	-	23,708	1,421,589	35,429	-	-	1,480,726
Bonds and notes payable	21,924,615	20,093,910	-	-	16,615,195	-	14,000,000	72,633,720
Other liabilities	803,133	-	-	-	1,579,903	-	-	2,383,036
Total liabilities	<u>23,009,741</u>	<u>31,965,296</u>	<u>311,334</u>	<u>1,858,525</u>	<u>18,938,586</u>	<u>5,180</u>	<u>14,083,000</u>	<u>90,171,662</u>
NET ASSETS								
Unrestricted	20,354,236	29,073,403	3,974,090	5,171,985	(949,350)	422,817	(14,311)	58,032,870
Temporarily restricted	9,283,902	71,181,095	8,036,134	386,644	130,333	-	113,522	89,131,630
Permanently restricted	3,265,928	132,238,723	19,792,979	-	2,549,875	4,683,523	-	162,531,028
Total net assets	<u>32,904,066</u>	<u>232,493,221</u>	<u>31,803,203</u>	<u>5,558,629</u>	<u>1,730,858</u>	<u>5,106,340</u>	<u>99,211</u>	<u>309,695,528</u>
Total liabilities and net assets	<u>\$ 55,913,807</u>	<u>\$ 264,458,517</u>	<u>\$ 32,114,537</u>	<u>\$ 7,417,154</u>	<u>\$ 20,669,444</u>	<u>\$ 5,111,520</u>	<u>\$ 14,182,211</u>	<u>\$ 399,867,190</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Condensed Statements of Activities

	June 30,2005	June 30,2005	June 30,2005	June 30,2005	June 30,2005	December 31, 2004	June 30,2005	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	Educational Foundation of the University of South Carolina - Lancaster, Inc.	Aiken Student Housing Foundation	Total
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenues, gains and other support								
Contributions	\$ 200	\$ 5,715,806	\$ 558,022	\$ 1,642,600	\$ 372,131	\$ 500	\$ -	\$ 8,289,259
Investment Income	282,232	11,862,472	127,838	147,435	112,083	33,200	24,257	12,589,517
Net realized and unrealized gains	1,157,234	4,741,470	187,965	235,156	158,865	-	-	6,480,690
Earned income	360,204	-	1,604,650	1,838,590	957,725	6,000	1,094,675	5,861,844
Miscellaneous income	147,659	689,323	-	-	9,467	-	11,287	857,736
Gain on disposal of assets	619,363	-	-	-	-	-	-	619,363
Net assets released from restrictions:								
Restrictions satisfied by payments	668,479	-	-	158,724	-	100,924	-	928,127
Satisfaction of program restrictions	-	1,727,183	2,344,421	-	909,257	-	-	4,980,861
Expiration of time restrictions	-	(6,720)	-	-	-	-	2,911	(3,809)
Total revenues, gains and other support	<u>3,235,371</u>	<u>24,729,534</u>	<u>4,822,896</u>	<u>4,022,505</u>	<u>2,519,528</u>	<u>140,624</u>	<u>1,133,130</u>	<u>40,603,588</u>
Expenses								
Scholarships and student assistance	-	6,005,893	1,165,954	696,975	60,735	83,750	-	8,013,307
Program services	-	8,360,700	2,855,726	1,719,555	1,264,495	-	-	14,200,476
Supporting services	<u>3,212,372</u>	<u>2,603,163</u>	<u>167,530</u>	<u>889,127</u>	<u>1,614,433</u>	<u>51,276</u>	<u>1,137,659</u>	<u>9,675,560</u>
Total expenses	<u>3,212,372</u>	<u>16,969,756</u>	<u>4,189,210</u>	<u>3,305,657</u>	<u>2,939,663</u>	<u>135,026</u>	<u>1,137,659</u>	<u>31,889,343</u>
Excess revenues over (under) expenses	22,999	7,759,778	633,686	716,848	(420,135)	5,598	(4,529)	8,714,245
Interest rate swap fair value adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(450,787)</u>	<u>-</u>	<u>-</u>	<u>(450,787)</u>
Change in unrestricted net assets	<u>22,999</u>	<u>7,759,778</u>	<u>633,686</u>	<u>716,848</u>	<u>(870,922)</u>	<u>5,598</u>	<u>(4,529)</u>	<u>8,263,458</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Condensed Statements of Activities

	June 30,2005	June 30,2005	June 30,2005	June 30,2005	June 30,2005	December 31. 2004	June 30,2005	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	Educational Foundation of the University of South Carolina - Lancaster, Inc.	Aiken Student Housing Foundation	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	1,151,766	(1,143,050)	1,640,606	110,742	429,823	-	-	2,189,887
Investment Income	3,619	205,496	854,399	-	-	-	-	1,063,514
Net realized and unrealized gains	26,569	3,783,594	1,071,460	-	-	-	-	4,881,623
Other	572,029	41,094	-	159,529	258,182	-	-	1,030,834
Net assets released from restrictions:								
Restrictions satisfied by payments	(668,479)	-	-	(158,724)	-	-	-	(827,203)
Satisfaction of program restrictions	-	(3,002,468)	(2,326,355)	-	(909,257)	-	-	(6,238,080)
Expiration of time restrictions	-	(163,799)	-	-	-	-	(2,911)	(166,710)
Change in temporarily restricted net assets	<u>1,085,504</u>	<u>(279,133)</u>	<u>1,240,110</u>	<u>111,547</u>	<u>(221,252)</u>	<u>-</u>	<u>(2,911)</u>	<u>1,933,865</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	4,750	6,413,687	3,343,975	-	132,842	1,314,456	-	11,209,710
Other	4,750	14,771	-	-	-	283,083	-	302,604
Net assets released from restrictions:								
Satisfaction of program restrictions	-	1,275,285	(18,066)	-	-	(100,924)	-	1,156,295
Expiration of time restrictions	-	170,519	-	-	-	-	-	170,519
Change in permanently restricted net assets	<u>9,500</u>	<u>7,874,262</u>	<u>3,325,909</u>	<u>-</u>	<u>132,842</u>	<u>1,496,615</u>	<u>-</u>	<u>12,839,128</u>
Change in net assets	1,118,003	15,354,907	5,199,705	828,395	(959,332)	1,502,213	(7,440)	23,036,451
Net assets at beginning of year	<u>31,786,063</u>	<u>217,138,314</u>	<u>26,603,498</u>	<u>4,730,234</u>	<u>2,690,190</u>	<u>3,604,127</u>	<u>106,651</u>	<u>286,659,077</u>
Net assets at end of year	<u>\$ 32,904,066</u>	<u>\$ 232,493,221</u>	<u>\$ 31,803,203</u>	<u>\$ 5,558,629</u>	<u>\$ 1,730,858</u>	<u>\$ 5,106,340</u>	<u>\$ 99,211</u>	<u>\$ 309,695,528</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

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 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* which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the University and its blended component unit, as the primary government and other related entities as discretely presented component units.

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

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

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

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

Financial Statements

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

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

Basis of Accounting

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

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments

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

Accounts Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Prepaid Items

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

Capital Assets

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

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

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

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in capital assets include such interest costs. There was no capitalized interest for fiscal year 2005.

Deferred Revenues and Deposits

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

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

Compensated Absences

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Noncurrent Liabilities

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

Net Assets

The University's net assets are classified as follows:

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

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

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

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

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

Donor- Restricted Assets

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

Income Taxes

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

Classification of Revenues

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

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

These revenues include:

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances

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

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

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Rebatable Arbitrage

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2005.

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

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

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

Statement of Net Assets		Notes	
Cash and cash equivalents (current)	\$ 162,121,570	Cash on hand	\$ 364,950
Restricted cash and cash equivalents for (non-current):		Deposits held by State Treasurer	211,262,317
Debt service	5,306,330	Other deposits	76,951
Capital projects	39,501,532	Blended component unit deposits	3,304,169
Endowments	4,831,572	Investments held by State Treasurer	1,885,715
Federal student loans	3,247,383	Other investments	3,434,543
Investments (current)	7,316,101	Blended component unit investments	7,316,101
Investments (non-current)	5,320,258		<u>\$ 227,644,746</u>
	<u>\$ 227,644,746</u>		

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2005, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits

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

Investments Held by State Treasurer and Other Investments

The University's investments include common stock held by the State Treasurer for the University. The University has other investments, which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

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

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

The uninsured and collateral held by pledging bank's trust department not in the University's name was \$3,434,543 at June 30, 2005.

The net change in unrealized appreciation of investments for the current fiscal year increased in the amount of \$150,148.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Blended Component Unit Deposits

The Trust's cash and cash equivalents balance includes cash on deposit with financial institutions of \$1,940,754 and deposits in money market funds of \$1,363,415. At December 31, 2004, the Trust had demand deposits and sweep accounts with banks totaling \$3,769,000. Of these amounts, approximately \$2,600,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$2,500,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement.

Blended Component Unit Investments

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

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable equity securities		
Common stock	\$4,645,032	\$4,881,039
Mutual funds	443,385	443,385
Certificates of deposits maturing after three months	<u>2,000,000</u>	<u>1,991,677</u>
	<u>\$7,088,417</u>	<u>\$7,316,101</u>

The net change in unrealized appreciation of investments for the current year increased in the amount of \$176,245.

Of the total cash and cash equivalents for the Trust, \$140,923 held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2005.

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

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

Note 3 – Receivables

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2005:

Students and sponsors	\$ 7,212,323
Auxiliary enterprises	2,988,255
Federal grants and contracts	15,710,231
State grants and contracts	290,325
Local grants and contracts	119,966
Non-governmental grants and contracts	3,790,280
Private gifts	539,504
Accrued interest	9,053,486
Blended component unit	<u>1,039,012</u>
	40,743,382
Less allowance for doubtful accounts	<u>562,767</u>
Accounts receivable, net	<u>\$ 40,180,615</u>

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

Pledges Receivable

Pledges receivable consist of the Athletic Gamecock Club membership drive and are due by the end of the calendar year. At June 30, 2005, \$2,761,759 are outstanding net of a \$150,000 allowance.

Patients Accounts Receivable

The Clinical Faculty, through its affiliation with a hospital, provides medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

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

At December 31, 2004, patients accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 3,212,000
Less estimated uncollectible charges	<u>737,000</u>
Patient accounts receivable, net	<u>\$ 2,475,000</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 written off and assigned to the federal agency administering the loan programs.

Capital Improvement Bonds Receivable

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

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

The University has \$28,326,057 of outstanding state capital improvement bond authorization not yet received from the State.

Notes Receivable

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

The principal balance of \$19,943,910 and the related cumulative accrued interest receivable of \$8,321,145, respectively is included in the Note Receivable, and Accounts Receivable, net at June 30, 2005.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Note 4 – Capital Assets

	June 30, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 50,956,594	\$ 3,967,629	\$ 44,435	\$ 54,879,788
Construction in-progress	59,484,470	54,771,144	31,283,772	82,971,842
Works of art and historical treasures	16,005,029			16,005,029
Total capital assets not being depreciated	126,446,093	58,738,773	31,328,207	153,856,659
Other capital assets:				
Land improvements				
Buildings and improvements	793,787,062	38,828,530	33,564	832,582,028
Machinery, equipment, and other	111,899,879	7,819,208	3,784,909	115,934,178
Vehicles	8,581,816	1,184,332	376,189	9,389,959
Intangibles	4,233,425	838,140		5,071,565
Blended Component Unit buildings and improvements	16,205,370			16,205,370
Blended Component Unit medical and office equipment	5,403,107	833,243	662,917	5,573,433
Total capital assets at historical cost	940,110,659	49,503,453	4,857,579	984,756,533
Less accumulated depreciation for:				
Land improvements				
Buildings and improvements	298,054,635	22,589,505		320,644,140
Machinery, equipment, and other	74,022,880	9,198,031	3,063,887	80,157,024
Vehicles	6,107,408	803,660	334,034	6,577,034
Intangibles	3,314,341	505,329		3,819,670
Blended Component Unit buildings and improvements	3,023,560	424,616		3,448,176
Blended Component Unit medical and office equipment	4,041,616	520,344	638,045	3,923,915
Total accumulated depreciation	388,564,440	34,041,485	4,035,966	418,569,959
Other capital assets, net	551,546,219	15,461,968	821,613	566,186,574
Capital Assets, Net	\$ 677,992,312	\$ 74,200,741	\$ 32,149,820	\$ 720,043,233

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

Gains on disposals	\$ 178,909
Losses on disposals	(1,074,018)
Net gain (loss) on disposals	\$ (895,109)

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2005, 2004, and 2003, were \$16,507,000, \$15,807,000, and \$15,970,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$328,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2005, 2004, and 2003 were \$274,000, \$283,000, and \$287,000, respectively, and equaled the required contributions of 10.3 percent

(excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$5,300 and accidental death insurance contributions of \$5,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

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

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

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$7,019,000 (excluding the surcharge) from the University as employer and \$5,578,000 from its employees as plan members. In fiscal year 2005, the University paid \$139,000 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.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

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. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Blended Component Unit

The Trust provides a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the years ended December 31, 2004 amounted to \$1,020,000 and is included as a component of personal services and related expenses.

Note 6—Postemployment And Other Employee Benefits

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

retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

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

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$21,304,000 for the year ended June 30, 2005. As discussed in Note 5, the University paid \$10,214,000 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

Note 7—Contingencies, Litigation, And Project Commitments

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

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 approximately \$39,000,000 for capital and \$47,000,000 for noncapital projects at June 30, 2005. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

Note 8—Lease Obligations

Future commitments for capital leases and operating leases that have remaining noncancelable terms in excess of one year as of June 30, 2005 were as follows.

Equipment Capital Leases

Year Ending December 31	
2005	167,406
2006	122,345
2007	114,921
2008	110,705
2009	<u>73,803</u>
Total minimum lease payments	\$ 589,180
Less interest, executory and other costs	<u>47,501</u>
Present value of minimum lease payments	\$ <u>541,679</u>

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

All equipment capital leases are classified as machinery, equipment and other in Note 4. The historical cost of assets held under capital leases totaled \$647,523 as of June 30, 2005. Accumulated depreciation of this equipment totaled \$159,648 at June 30, 2005.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Real Property Operating Leases

Year Ending June 30	Total
2006	\$ 744,552
2007	371,571
2008	296,846
2009	175,837
2010	149,878
2011	<u>6,667</u>

Total minimum lease payments

\$ 1,745,351

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

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2005-2038. 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 for periods from 2005 to 2030 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total real property operating lease payments were \$1,158,779 for fiscal year 2005. In the current fiscal year, the University incurred expenses of \$1,055,889 for office copier contingent rentals on a cost per copy basis.

Note 9—Short-Term Debt

Bonds Anticipation Notes (BANS) Payable

Bond anticipation notes payable consisted of the following at June 30, 2005.

	Interest Rate	Maturity Date	Balance June 30, 2005
Revenue BANS			
Series 2005A	3.50%	03/16/06	4,420,000
Series 2005B	3.50%	03/16/06	<u>4,925,000</u>

Total BANS Payable

\$ 9,345,000

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 2005, \$30,900,000 general revenue bonds Series 2004A was issued to refinance a portion

of the remaining balance of general revenue BANS Series 2003A. \$4,420,000 athletic facilities revenue BANS Series 2005A, was issued to refinance a portion of the remaining balance of athletic facilities revenue BANS Series 2004A. \$4,925,000 athletic facilities revenue BANS Series 2005B was issued to refinance a portion of the remaining balance of athletic facilities revenue -BANS Series 2004B. Short-term debt activity for the year ended June 30, 2005 was as follows:

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

	June 30, 2004	Additions	Reductions	June 30, 2005
Revenue BANS	\$ 44,310,000	\$ 9,345,000	\$ 44,310,000	\$ 9,345,000
Total Short-Term Debt	\$ 44,310,000	\$ 9,345,000	\$ 44,310,000	\$ 9,345,000

Note 10 – Bonds and Notes Payable

Bonds Payable

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

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2005</u>
State Institution Bonds			
Series 1996B	5.0% to 7.0%	04/01/16	\$ 20,590,000
Series 2001B	4.5% to 5.0%	07/01/21	30,675,000
Series 2002E	3.5% to 5.0%	09/01/22	16,025,000
Series 2003I	2.75% to 4.625%	10/01/23	<u>6,790,000</u>
Total State Institution Bonds			<u>74,080,000</u>
Revenue Bonds			
Series 1995	4.8% to 5.0%	05/01/15	4,925,000
Series 1996	5.3% to 6.8%	06/01/26	21,715,000
Series 1997	5.25% to 5.6%	06/01/17	3,250,000
Series 1999A	4.25% to 5.0%	06/01/19	3,925,000
Series 2000A	5.0% to 5.75%	06/01/30	19,580,000
Series 2002	4.0% to 5.5%	05/01/32	20,300,000
Series 2003B	2.25 to 5.0%	05/01/23	5,055,000
Series 2004A	3.375% to 5.375%	05/01/34	30,175,000
Series 2005A	3.0% to 5.0%	05/01/35	<u>12,400,000</u>
Total Revenue Bonds			<u>121,325,000</u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>8,920,000</u>
Total Bonds Payable			\$ <u>204,325,000</u>

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

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Tuition bond fees for the preceding year were \$11,462,211, which results in a legal annual debt service at June 30, 2005 of \$10,315,990. The annual debt service payments for the fiscal year ended June 30, 2005 were \$6,785,986. Tuition revenue pledged in fiscal year 2005 was \$14,116,214 for state institution bonds.

General revenue bonds are payable from and secured by a pledge of net revenues derived by the University from the operation of the facilities constructed with the bond proceeds. General revenue bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of the University which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2005 were \$9,215,767.

Athletic facilities revenue bonds are payable and secured by a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2005 were \$735,955 special student fees, \$1,997,196 special admission fee, and \$1,065,168 athletic department net revenues.

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

As of June 30, 2005, the University believes it is in compliance with all related bond covenants of its issued debt.

During the current fiscal year, the University issued general revenue bonds in the amount of \$12,400,000 for parking facilities and \$30,900,000 to refinance a portion of the remaining balance of general revenue BANS Series 2003A.

The blended component unit revenue bonds are limited obligations of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (collectively the "Trust"). The terms of

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

The terms of the indenture of Trust (the "Indenture") relating to the issuance of the bonds provide that they bear interest at a variable rate, not to exceed 12%. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2004, the average interest rate on the bonds was 1.18%.

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

Year ended December 31, 2004		
2005	\$	420,000
2006		425,000
2007		425,000
2008		425,000
2009		425,000
2210-2014		2,125,000
2015-2019		2,125,000
2020-2024		2,125,000
2025		425,000
	\$	<u>8,920,000</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

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

	Principal	Interest	Total
State Institution Bonds			
2006	\$ 3,405,000	\$ 3,366,068	\$ 6,771,068
2007	3,570,000	3,204,936	6,774,936
2008	3,775,000	3,041,768	6,816,768
2009	3,975,000	2,875,299	6,850,299
2010	4,165,000	2,700,186	6,865,186
2011-2015	24,300,000	10,458,378	34,758,378
2016-2020	20,155,000	4,847,149	25,002,149
2021-2024	10,735,000	703,201	11,438,201
Total	\$ 74,080,000	\$ 31,196,985	\$ 105,276,985

	Principal	Interest	Total
Revenue Bonds			
2006	\$ 3,005,000	\$ 6,056,373	\$ 9,061,373
2007	3,195,000	5,950,148	9,145,148
2008	3,350,000	5,798,781	9,148,781
2009	3,500,000	5,651,310	9,151,310
2010	3,675,000	5,493,190	9,168,190
2011-2015	21,335,000	24,679,004	46,014,004
2016-2020	22,130,000	19,213,358	41,343,358
2021-2025	24,990,000	13,222,440	38,212,440
2026-2030	23,235,000	6,653,900	29,888,900
2031-2035	12,910,000	1,540,812	14,450,812
Total	\$ 121,325,000	\$ 94,259,316	\$ 215,584,316

Notes Payable

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

University note payable secured by stadium
Scoreboard, dated October, 1999, payable in
annual installments of \$75,203, matures
November, 2006, interest rate of 5.359%.

\$ 139,126

University note payable to acquire rare literary
collection, dated January, 2001, payable in annual
installments of \$36,667, matures July 2009,
imputed interest rate of 4.38%.

161,507

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

University note payable secured by aircraft, dated July, 2001, payable in monthly interest payments of \$6,458, thru June, 2003 and monthly principal payments of \$10,417 plus interest matures June 2011, interest rate of 7.75%. 750,000

University note payable secured by book binding equipment, dated June, 2003, payable in annual installments of \$24,948, matures June 2006, interest rate 3.92%. 24,007

University note payable secured by SGI workstations dated March, 2004, payable in annual installments of \$29,665, matures July, 2006, interest rate of 3.39%. 50,334

University note payable secured by energy management equipment, dated July, 2004, payable in varying semi-annual principal and interest payments, matures July, 2011, interest rate of 3.9695%. 30,260,000

University note payable secured by telecommunications equipment, dated October, 2004, payable in annual installments of \$106,107, matures October, 2008, interest rate of 2.9475%. 394,905

University note payable secured by fitness equipment, dated October, 2004, payable in annual installments of \$36,153, matures October, 2007, interest rate of 2.86%. 102,540

University note payable to acquire energy savings lighting retrofit, dated December, 2004, payable in annual installments of \$130,719, matures December, 2012, interest rate of 1.00%. 1,000,000

University note payable secured by video conference equipment, dated February, 2005, payable in annual installments of \$48,351, matures February, 2008, interest rate of 3.249%. 136,114

University note payable secured by bio mass energy management equipment, dated June 10, 2005, payable in semi-annual principal and interest payments, matures June 30, 2013, interest rate of 4.0%. 16,131,779

Total Notes Payable \$ 49,150,312

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2006	\$ 2,468,023	\$ 1,942,611	\$ 4,410,634
2007	3,433,781	1,808,254	5,242,035
2008	3,364,630	1,671,622	5,036,252
2009	3,379,940	1,537,234	4,917,174
2010	3,377,750	1,401,461	4,779,211
2011-2013	33,126,188	2,493,061	35,619,249
Total	\$ 49,150,312	\$ 10,854,243	\$ 60,004,555

Note 11 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	June 30, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
Bonds and Notes Payable and Capital					
Lease Obligations					
State Institution Bonds	\$ 77,320,000	\$ —	\$ 3,240,000	\$ 74,080,000	\$ 3,405,000
Revenue Bonds	80,955,000	43,300,000	2,930,000	121,325,000	3,005,000
Blended Component Unit Revenue Bonds	9,340,000	—	420,000	8,920,000	420,000
Subtotal Bonds Payable	167,615,000	43,300,000	6,590,000	204,325,000	6,830,000
Less: Revenue Bonds Unamortized					
Discount	514,009	—	23,110	490,899	23,110
Total Bonds Payable	167,100,991	43,300,000	6,566,890	203,834,101	6,806,890
Notes Payable	1,449,777	48,251,445	550,910	49,150,312	2,468,023
Capital Lease Obligations	43,775	580,018	82,114	541,679	146,656
Total Bonds, Notes and Capital Leases	168,594,543	92,131,463	7,199,914	253,526,092	9,421,569
Other Liabilities					
Accrued Compensated Absences	19,225,929	10,997,411	9,406,679	20,816,661	11,165,095
Retainage Payable	1,732,061	1,199,728	1,455,428	1,476,361	898,904
Deferred Revenues	25,993,434	25,451,193	22,728,435	28,716,192	25,451,192
Federal Loan Funds	18,808,899	50,279	126,420	18,732,758	—
Total Other Liabilities	65,760,323	37,698,611	33,716,962	69,741,972	37,515,191
Total Long-Term Liabilities	\$ 234,354,866	\$ 129,830,074	\$ 40,916,876	\$ 323,268,064	\$ 46,936,760

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Note 12 – Component Units

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

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the University for the year ended June 30, 2005.

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 \$132,238,723 or 57 % of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention Russell Meekins.

The University of South Carolina Business Partnership Foundation was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management

personnel in the State and region. The University receives funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$19,792,979 or 62% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

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

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

The Carolina Piedmont Foundation, Inc., was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate. The University receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the University. The Foundation's capital debt liability is \$16,615,195 which exists to provide capital assets for the University. Complete financial statements for the Foundation can

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

be obtained at Carolina Piedmont Foundation **Inc.**, 800 University Way, Spartanburg, SC 29303.

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

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

The Aiken **Student** Housing Foundation was established to provide student housing for the exclusive use and benefit of the University of South Carolina Aiken. The University receives funds from the foundation for reimbursement for personnel and student housing services provided by the University. The Foundation's capital debt liability is \$ 14,000,000 which exists to provide capital assets for the University. Complete financial statements for the Foundation can be obtained at the Office of Business and Finance, 471 University Parkway, Aiken, SC 29801.

The University of South Carolina Research Campus Foundation was established to facilitate the University

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

Various transactions occur between the University and the component units. A summary of the transactions for the year ended June 30, 2005 follows:

Funds Received from Component Units

Carolina Piedmont Foundation, Inc.	\$ 283,413
USC Development Foundation	52,088
USC Business Partnership Foundation	90,882
USC Educational Foundation	9,243,675
Greater USC Alumni Association	1,576,103
Educational Foundation of the University of South Carolina – Lancaster, Inc.	96,536
USC Research Foundation	<u>65,955,978</u>
	<u>\$77,298,675</u>

The majority of the University of South Carolina Research Foundation revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$12,995,456 due from the University of South Carolina Research Foundation at June 30, 2005.

Funds Paid to Component Units

USC Development Foundation	\$ 466,408
USC Educational Foundation	59,103
USC Business Partnership Foundation	7,092
Carolina Piedmont Foundation, Inc.	<u>161, 862</u>
	<u>\$ 694,465</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Note 13 – Risk Management

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

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

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

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

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

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

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

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2005

Note 14—Operating Expenses By Function

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

	Compensation and Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 218,296,019	\$ 24,946,640	\$ 18,917	\$ 172,744		\$ 243,434,320
Research	60,508,808	25,061,630	1,992	482,061		86,054,491
Public service	39,260,494	17,706,121	564,399	513,353		58,044,367
Academic support	34,698,519	26,635,039		44,240		61,377,798
Student services	17,666,974	11,483,596	(11,771)	46,841		29,185,640
Institutional support	39,380,240	(3,065,349)		40,416		36,355,307
Operation and maintenance of plant	22,401,950	29,468,608	17,284,577	11,164		69,166,299
Auxiliary Enterprises	27,584,914	39,220,186	5,215,608	2,943,183		74,963,891
Scholarships and fellowships	1,908,393	107,308		43,333,872		45,349,573
Blended Component Unit	21,215,936	11,488,348			944,960	33,649,244
Depreciation					33,096,525	33,096,525
Total Operating Expenses	\$ <u>482,922,247</u>	\$ <u>183,052,127</u>	\$ <u>23,073,722</u>	\$ <u>47,587,874</u>	\$ <u>34,041,485</u>	\$ <u>770,677,455</u>

Note 15—Endowments and Similar Funds

The University's endowment funds and type consist of the following as of June 30, 2005.

<u>Net Asset Classification</u>	<u>True Endowment</u>	<u>Term Endowment</u>	<u>Quasi Endowment</u>	<u>Annuity & Life Income</u>	<u>Total</u>
Restricted - Nonexpendable	\$14,813,521	\$ 53,782	\$	\$	\$ 14,867,303
Restricted - Expendable					
Scholarships, research, and other			1,918,049		1,918,049
Capital Projects				950,831	950,831
Unrestricted			22,376,792		22,376,792
Total	<u>\$14,813,521</u>	<u>\$ 53,782</u>	<u>\$ 24,294,841</u>	<u>\$ 950,831</u>	<u>\$ 40,112,975</u>

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2005

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	\$ 177,923,452
Budget and Control Board Allocations	5,792,752
From Commission on Higher Education	
Technology Initiative	2,075,097
Academic Endowment Incentive	150,913
Transfer from Department of Revenue - EIA	653,144
Transfer from Department of Health and Environmental Control	175,738
Total non-capital appropriations recorded as current year revenue	<u><u>\$ 186,771,096</u></u>

Capital Improvement Bond Proceeds

Proceeds drawn during the current fiscal year	\$ 3,617,455
Plus: Expenses incurred but not drawn during current fiscal year	214,705
Less: Proceeds drawn but not expended during current fiscal year	<u>(422,922)</u>
Total capital appropriations recorded as current year revenue	<u><u>\$ 3,409,238</u></u>

See accompanying independent auditor's report.

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2005

Information for Statement of Activities

	2005	Comparative Amounts for 2004	Increase/ (Decrease)
University			
Charges for services	\$ 519,737,326	\$ 483,434,637	\$ 36,302,689
Operating grants and contributions	42,918,067	37,741,312	5,176,755
Capital grants and contributions	10,784,454	2,455,883	8,328,571
Less expenses	(748,343,451)	(683,209,986)	(65,133,465)
Net program revenue (expense)	(174,903,604)	(159,578,154)	(15,325,450)
Additions to permanent endowments	2,822,149	539,000	2,283,149
Transfers:			
State appropriations	186,771,096	182,942,764	3,828,332
Capital improvement bond proceeds	3,409,238	4,227,119	(817,881)
Transfers to/from other state agencies	(1,261,060)	(1,347,259)	86,199
Total contributions and transfers	191,741,423	186,361,624	5,379,799
Changes in net assets	16,837,819	26,783,470	(9,945,651)
Net assets - beginning	641,851,347	615,067,877	26,783,470
Net assets - ending	<u>\$ 658,689,166</u>	<u>\$ 641,851,347</u>	<u>\$ 16,837,819</u>

	2005	Comparative Amounts for 2004	Increase/ (Decrease)
Trust			
Charges for services	\$ 21,582,676	\$ 21,061,874	\$ 520,802
Operating grants and contributions	15,050,264	14,867,573	182,691
Less expenses	(34,080,021)	(35,373,993)	1,293,972
Net program revenue (expense)	2,552,919	555,454	1,997,465
Changes in net assets	2,552,919	555,454	1,997,465
Net assets - beginning	12,724,916	12,169,462	555,454
Net assets - ending	<u>\$ 15,277,835</u>	<u>\$ 12,724,916</u>	<u>\$ 2,552,919</u>

See accompanying independent auditor's report.