

UNIVERSITY OF SOUTH CAROLINA

Financial Statements and Schedules

June 30, 2003

(With Independent Auditors' Report Thereon)

State of South Carolina



Office of the State Auditor

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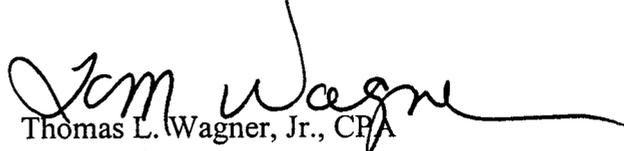
October 31, 2003

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, 2003, 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



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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 each major fund of the University of South Carolina (the University), a department of the State of South Carolina, as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows 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). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust, are based on the report 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 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 report 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, changes in financial position and the cash flows of only that portion of the business-type activities and each major fund of the financial reporting entity 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, 2003, and the changes in its financial position and its cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report 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 each major fund of the University of South Carolina as of June 30, 2003, and the respective changes in financial position and cash flows 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 October 10, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis 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 noncapital appropriations, capital appropriations 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 included in the accompanying schedules 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 report of other auditors, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 10, 2003

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 2003. While audited financial statements for fiscal year 2002 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.

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)**

Condensed Summary of Net Assets				
	<u>2003</u>	<u>2002</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 202,294,577	\$ 178,786,454	\$ 23,508,123	13.15%
Capital Assets, Net	639,158,779	606,624,345	32,534,434	5.36%
Other Assets	<u>49,515,967</u>	<u>49,419,451</u>	<u>96,516</u>	0.20%
Total Assets	<u>890,969,323</u>	<u>834,830,250</u>	<u>56,139,073</u>	6.72%
Liabilities				
Current Liabilities	100,331,522	94,147,469	6,184,053	6.57%
Noncurrent Liabilities	<u>175,569,924</u>	<u>162,777,132</u>	<u>12,792,792</u>	7.86%
Total Liabilities	<u>275,901,446</u>	<u>256,924,601</u>	<u>18,976,845</u>	7.39%
Net Assets				
Invested in capital assets, net of related debt	459,214,021	451,532,092	7,681,929	1.70%
Restricted - nonexpendable	11,142,043	11,196,692	(54,649)	(0.49%)
Restricted - expendable	18,297,975	17,643,245	654,730	3.71%
Unrestricted	<u>126,413,838</u>	<u>97,533,620</u>	<u>28,880,218</u>	29.61%
Total Net Assets	<u>\$ 615,067,877</u>	<u>\$ 577,905,649</u>	<u>\$ 37,162,228</u>	6.43%

- Total Assets of the University increased by \$56.1 million. Capital assets increased \$32.5 million, primarily due to major building projects completed and in progress. Cash and cash equivalents increased \$16 million, driven by the increase in unrestricted net assets.
- The minor increase in Current Liabilities is attributable to a net increase in short term debt and an increase in deferred revenues.
- The \$12.8 million increase in Noncurrent Liabilities is almost totally attributable to issuance of long term bonds.
- Net Assets of the University increased during the year by \$37.1 million. The increase is driven largely by a \$28.9 million increase in unrestricted net assets and a \$7.7 million increase in capital assets, net of related debt.

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 may 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 (loss) before other revenues, expenses, gains or losses”.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2003</u>	<u>2002</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Operating Revenues:				
Student tuition and fees	\$ 210,425,785	\$ 168,537,527	\$ 41,888,258	24.85%
Less scholarship allowance	(41,016,263)	(30,076,026)	(10,940,237)	36.38%
Federal grants and contracts	112,944,318	97,727,944	15,216,374	15.57%
State grants and contracts	50,939,294	33,779,838	17,159,456	50.80%
Local grants and contracts	823,021	1,860,961	(1,037,940)	(55.77%)
Nongovernmental grants and contracts	17,134,963	19,871,609	(2,736,646)	(13.77%)
Sales and services of educational and other activities	16,056,444	16,121,748	(65,304)	(0.41%)
Sales and services of auxiliary enterprises	69,485,172	63,340,826	6,144,346	9.70%
Less scholarship allowance	(2,837,421)	(2,212,304)	(625,117)	28.26%
Interest collected on student loans	285,284	166,165	119,119	71.69%
Other fees	5,614,127	4,479,897	1,134,230	25.32%
Other operating revenues	<u>1,797,713</u>	<u>1,475,786</u>	<u>321,927</u>	21.81%
Total operating revenues	<u>441,652,437</u>	<u>375,073,971</u>	<u>66,578,466</u>	17.75%
Operating Expenses:				
Compensation and employee benefits	420,458,801	406,533,140	13,925,661	3.43%
Services and supplies	132,086,499	124,110,053	7,976,446	6.43%
Utilities	19,022,425	15,582,204	3,440,221	22.08%
Scholarships and fellowships	48,208,202	33,342,986	14,865,216	44.58%
Depreciation expense	<u>31,378,183</u>	<u>27,490,806</u>	<u>3,887,377</u>	14.14%
Total operating expenses	<u>651,154,110</u>	<u>607,059,189</u>	<u>44,094,921</u>	7.26%
Operating loss	(209,501,673)	(231,985,218)	22,483,545	(9.69%)
Nonoperating revenues (expenses)	<u>233,545,196</u>	<u>254,795,434</u>	<u>(21,250,238)</u>	(8.34%)
Income (loss) before other revenues, expenses, gains or losses	24,043,523	22,810,216	1,233,307	5.41%
Other revenues, expenses, gains or losses	<u>13,118,705</u>	<u>20,079,404</u>	<u>(6,960,699)</u>	(34.67%)
Increase in net assets	37,162,228	42,889,620	(5,727,392)	(13.35%)
Net assets at beginning of year	<u>577,905,649</u>	<u>535,016,029</u>	<u>42,889,620</u>	8.02%
Net assets at end of year	<u>\$ 615,067,877</u>	<u>\$ 577,905,649</u>	<u>\$ 37,162,228</u>	6.43%

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

The Condensed 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 \$31 million increase in student tuition and fees, a \$28.6 million increase in grant and contract revenues, and a \$5.5 million increase in sales and service were largely responsible for the overall \$66.5 million increase in Operating Revenues. The increase in student tuition and fees is a result of a 7.5 percent increase in enrollment and a 23 percent tuition increase. The tuition increase was necessary to offset reductions in State appropriations and 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 \$44.1 million or 7.26 percent. The largest increases occurred in utilities and scholarships and fellowships. Utilities increased due to rate increases and the addition of major capital buildings. Scholarships increased because of the increase in federal and state student aid.
- The \$21.3 million decline in Non-operating revenues and expenses was attributable to a decrease in state appropriations as a result of state budget reductions. There was a \$2.4 million increase in gift revenues, a \$1.2 million decrease in investment and endowment income, and a \$1.5 million increase in other non-operating revenues. The other non-operating revenues increase was attributable to technology funds received from the state.
- State capital appropriations and other capital grants and gifts declined approximately \$6.5 million.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating

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

Capital Asset and Debt Administration

The University placed several significant buildings in service during fiscal year 2003. A new multi-purpose entertainment arena opened in November, 2002, and a 170,000 square foot fitness and wellness center opened in January, 2003. A new 500 bed student housing project began during the fiscal year and is scheduled for completion in December, 2004. The University’s indebtedness consists of bonds payable of \$150,222,881, bond anticipation notes of \$28,025,000 and notes payable of \$1,696,877. During the current fiscal year, \$17,085,000 bonds were issued to redeem a \$8,400,000 bond anticipation note and to fund various capital projects. In addition, a \$13,800,000 bond anticipation note was issued to fund new student housing construction and renovation projects.

Economic Outlook

The economic position of the University is somewhat tied to that of the State of South Carolina. The state closed fiscal year 2003 with approximately a \$22 million deficit, primarily due to collections falling below estimate of revenues. Higher Education funding from the state for fiscal year 2004 was also reduced from fiscal year 2003 funding levels by 9.88 percent.

The University’s overall financial position remains strong. Even with state appropriation reductions, the University managed an increase in unrestricted net assets. The University was aware of state appropriation decreases at the time fees were established and has anticipated that the new fiscal year will be similar.

UNIVERSITY OF SOUTH CAROLINA

Statement of Net Assets

June 30, 2003

ASSETS	University	Trust	Total
Current assets:			
Cash and cash equivalents	\$ 122,906,927	\$ 2,581,724	\$ 125,488,651
Investments	-	3,881,943	3,881,943
Accounts receivable, net	39,644,749	2,438,792	42,083,541
Pledges receivable	2,977,840	-	2,977,840
Student loans receivable, current	14,526	-	14,526
Patients accounts receivable, net	-	2,378,000	2,378,000
Capital improvement bonds proceeds receivable	797,755	-	797,755
Inventories	2,349,851	-	2,349,851
Prepaid items	5,308,832	-	5,308,832
Restricted cash and cash equivalents	25,276,720	-	25,276,720
Funds due from others	3,017,377	-	3,017,377
Total current assets	<u>202,294,577</u>	<u>11,280,459</u>	<u>213,575,036</u>
Noncurrent assets:			
Investments	3,994,046	-	3,994,046
Notes receivable	19,943,910	-	19,943,910
Restricted cash and cash equivalents	4,188,664	-	4,188,664
Restricted - federal student loans receivable	19,147,017	-	19,147,017
Capital assets, net of accumulated depreciation	639,158,779	14,929,099	654,087,878
Other assets	2,242,330	-	2,242,330
Total noncurrent assets	<u>688,674,746</u>	<u>14,929,099</u>	<u>703,603,845</u>
Total assets	<u>890,969,323</u>	<u>26,209,558</u>	<u>917,178,881</u>
LIABILITIES			
Current liabilities:			
Accounts payable	14,056,325	2,532,077	16,588,402
Retainage payable - current portion	1,384,253	-	1,384,253
Accrued interest payable	2,242,531	-	2,242,531
Accrued payroll and related liabilities	8,331,552	32,937	8,364,489
Accrued compensated absences - current portion	9,473,685	673,401	10,147,086
Short - term debt	28,025,000	-	28,025,000
Long-term liabilities - current portion	5,029,089	495,862	5,524,951
Deferred revenues	28,244,492	-	28,244,492
Deposits	1,167,259	-	1,167,259
Other liabilities	186,526	-	186,526
Funds held for others	2,190,810	-	2,190,810
Total current liabilities	<u>100,331,522</u>	<u>3,734,277</u>	<u>104,065,799</u>
Noncurrent liabilities:			
Retainage payable	697,268	-	697,268
Accrued compensated absences	9,102,169	-	9,102,169
Federal loan funds	18,879,818	-	18,879,818
Long-term liabilities	146,890,669	9,383,774	156,274,443
Other liabilities	-	922,045	922,045
Total noncurrent liabilities	<u>175,569,924</u>	<u>10,305,819</u>	<u>185,857,743</u>
Total liabilities	<u>275,901,446</u>	<u>14,040,096</u>	<u>289,941,542</u>
NET ASSETS			
Invested in capital assets, net of related debt	459,214,021	5,049,463	464,263,484
Restricted for:			
Nonexpendable			
Endowments	11,142,043	-	11,142,043
Expendable			
Scholarships, research, instruction, and other	310,953	-	310,953
Loans	4,284,834	-	4,284,834
Capital projects	3,038,898	-	3,038,898
Debt service	7,607,556	-	7,607,556
Unrestricted	3,055,734	-	3,055,734
Unrestricted	126,413,838	7,119,999	133,533,837
Total net assets	<u>\$ 615,067,877</u>	<u>\$ 12,169,462</u>	<u>\$ 627,237,339</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Assets:

Year Ended June 30, 2003

	<u>University</u>	<u>Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues:			
Student tuition and fees (\$10,651,329 pledged as security for bonds)	\$ 210,425,785	\$ -	\$ 210,425,785
Less scholarship allowance	(41,016,263)	-	(41,016,263)
Patient services, net	-	21,074,795	21,074,795
Federal grants and contracts	112,944,318	-	112,944,318
State grants and contracts	50,939,294	-	50,939,294
Local grants and contracts	823,021	-	823,021
Nongovernmental grants and contracts	17,134,963	-	17,134,963
Sales and services of educational and other activities	16,056,444	-	16,056,444
Sales and services of auxiliary enterprises (\$5,418,864 pledged as security for bonds)	69,485,172	-	69,485,172
Less scholarship allowance	(2,837,421)	-	(2,837,421)
Interest collected on student loans	285,284	-	285,284
Other fees (\$2,049,531 pledged as security for bonds)	5,614,127	-	5,614,127
Other operating revenues:	<u>1,797,713</u>	<u>14,573,548</u>	<u>16,371,261</u>
Total operating revenues	<u>441,652,437</u>	<u>35,648,343</u>	<u>477,300,780</u>
EXPENSES			
Operating Expenses:			
Compensation and employee benefits	420,458,801	20,960,738	441,419,539
Services and supplies	132,086,499	13,995,065	146,081,564
Utilities	19,022,425	-	19,022,425
Scholarships and fellowships	48,208,202	-	48,208,202
Depreciation expense	31,378,183	910,590	32,288,773
Total operating expenses	<u>651,154,110</u>	<u>35,866,393</u>	<u>687,020,503</u>
Operating loss	<u>(209,501,673)</u>	<u>(218,050)</u>	<u>(209,719,723)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	204,207,133	-	204,207,133
Gifts	28,628,707	-	28,628,707
Investment income	4,769,524	(883,742)	3,885,782
Endowment income	1,161,684	-	1,161,684
Gain on disposal of capital assets	4,469	-	4,469
Interest on capital asset related debt	(6,734,018)	(472,220)	(7,206,238)
Other nonoperating revenues	1,507,697	-	1,507,697
Net nonoperating revenues (expenses)	<u>233,545,196</u>	<u>(1,355,962)</u>	<u>232,189,234</u>
Income (loss) before other revenues, expenses, gains or losses	24,043,523	(1,574,012)	22,469,511
State capital appropriations	7,092,688	-	7,092,688
Capital grants and gifts	6,926,493	-	6,926,493
Capital contributions to/from component unit	6,550	(6,550)	-
Additions to permanent endowments	175,000	-	175,000
Transfers to/from other state funds	(1,082,026)	-	(1,082,026)
Increase (decrease) in net assets	<u>37,162,228</u>	<u>(1,580,562)</u>	<u>35,581,666</u>
NET ASSETS			
Net assets - beginning of year	577,905,649	13,750,024	591,655,673
Net assets - end of year	<u>\$ 615,067,877</u>	<u>\$ 12,169,462</u>	<u>\$ 627,237,339</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Cash Flows
Year Ended June 30, 2003

	University	Trust	Total
Cash flows from operating activities			
Student tuition and fees	\$ 173,016,843	\$ -	\$ 173,016,843
Patient services, net	-	21,336,595	21,336,595
Research grants and contracts	180,670,174	-	180,670,174
Sales and services of educational and other activities	13,972,085	-	13,972,085
Sales and services of auxiliary enterprises	69,586,333	-	69,586,333
Student loans disbursed	(120,659)	-	(120,659)
Student loans collections	163,136	-	163,136
Interest collected on student loans	285,284	-	285,284
Inflows from Federal Family Education Loans	122,060,468	-	122,060,468
Outflows from Federal Family Education Loans	(120,165,345)	-	(120,165,345)
Payments to employees for services	(418,435,052)	(20,986,165)	(439,421,217)
Payments to suppliers	(154,207,565)	(14,843,295)	(169,050,860)
Payments to students for scholarships and fellowships	(48,208,203)	-	(48,208,203)
Other receipts	6,598,309	12,927,418	19,525,727
Net cash used by operating activities	<u>(174,784,192)</u>	<u>(1,565,447)</u>	<u>(176,349,639)</u>
Cash flows from non-capital financing activities			
State appropriations	204,207,133	-	204,207,133
Gifts for other than capital purposes	26,180,334	-	26,180,334
Additions to permanent endowments	175,000	-	175,000
Other nonoperating revenues (expenses)	1,507,697	(6,550)	1,501,147
Transfers to/from other state agencies	(1,082,026)	-	(1,082,026)
Funds held for others	845,054	-	845,054
Federal loan liability	250,863	-	250,863
Net cash provided (used) by noncapital financing activities	<u>232,084,055</u>	<u>(6,550)</u>	<u>232,077,505</u>
Cash flows from capital and related financing activities			
Proceeds from capital debt	63,000,727	-	63,000,727
State capital appropriations	6,790,809	-	6,790,809
Capital grants and gifts	6,547,696	-	6,547,696
Gain on disposal of capital assets	566,320	-	566,320
Purchase and construction of capital assets	(66,855,188)	(2,058,355)	(68,913,543)
Principal paid on capital asset related debt	(48,362,912)	(514,796)	(48,877,708)
Interest paid on capital asset related debt	(7,759,530)	(472,220)	(8,231,750)
Net cash used by capital and related financing activities	<u>(46,072,078)</u>	<u>(3,045,371)</u>	<u>(49,117,449)</u>
Cash flows from investing activities			
Purchase of investments	(1,965)	(1,550,111)	(1,552,076)
Proceeds from the sale of investments	18,681	3,129,675	3,148,356
Investment income	3,692,050	94,819	3,786,869
Endowment income	1,393,297	-	1,393,297
Net cash provided investing activities	<u>5,102,063</u>	<u>1,674,383</u>	<u>6,776,446</u>
Net increase in cash and cash equivalents	16,329,848	(2,942,985)	13,386,863
Cash and cash equivalents, beginning of year	136,042,463	5,524,709	141,567,172
Cash and cash equivalents, end of year	<u>\$ 152,372,311</u>	<u>\$ 2,581,724</u>	<u>\$ 154,954,035</u>
Reconciliation of net operating loss to net cash used in operating activities:			
Operating loss	(209,501,673)	\$ (218,050)	\$ (209,719,723)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense	31,378,183	910,590	32,288,773
Changes in current assets and liabilities			
Accounts receivable, net	(495,036)	(1,646,130)	(2,141,166)
Patients accounts receivable, net	-	261,800	261,800
Student loans receivable	42,477	-	42,477
Inventories	(37,385)	-	(37,385)
Prepaid items	(3,285,704)	-	(3,285,704)
Accounts payable	236,033	(650,674)	(414,641)
Retainage payable - non-capital	(11,584)	-	(11,584)
Accrued payroll and related liabilities	1,944,224	(47,526)	1,896,698
Accrued compensated absences	79,526	22,099	101,625
Deferred revenues	4,335,290	-	4,335,290
Deposits	562,722	-	562,722
Other liabilities	(31,265)	(197,556)	(228,821)
Net cash used by operating activities	<u>\$ (174,784,192)</u>	<u>\$ (1,565,447)</u>	<u>\$ (176,349,639)</u>
Non-cash transactions:			
Gifts of capital assets reducing proceeds of capital grants and gifts	\$ 361,368	\$ -	\$ 361,368
Change in value of investments recognized in endowment income	<u>\$ (273,149)</u>	<u>\$ (595,443)</u>	<u>\$ (868,592)</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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. Accordingly, the financial statements include the University and its component unit, which is a major fund.

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.

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 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.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Accounts Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Prepaid Items

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

Capital Assets

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

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

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2003 was \$1,338,095.

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.

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.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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 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 where the provider has identified the qualified student recipients;
- (4) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and
- (5) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and 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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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, 2003.

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)	\$ 125,488,651	Cash on hand	\$ 180,211
Restricted cash and cash equivalents for (current):	25,276,720	Deposits held by State Treasurer	152,147,051
Debt service	5,913,084	Other deposits	45,050
Capital projects	19,363,636	Blended component unit deposits	2,581,724
Restricted cash and cash equivalents (non-current):	4,188,664	Investments held by State Treasurer	1,709,362
Endowments	1,629,652	Other investments	2,284,683
Federal student loans	2,559,012	Blended component unit investments	3,881,943
Investments (current)	3,881,943		
Investments (non-current)	3,994,046		
	<u>\$ 162,830,024</u>		<u>\$ 162,830,024</u>

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, 2003, 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. Of the total of these deposits the University's loan funds include \$25,000 restricted cash for a loan participation deposit.

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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.

The net change in unrealized depreciation of investments for the current fiscal year increased in the amount of \$271,184.

The University's investments are categorized as to credit risk as either (1) insured or registered, or securities held by the University or its agent in the University's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name, or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the University's name.

A summary of investments at June 30, 2003 by category of credit risk follows:

	Category <u>1</u>	Category <u>3</u>	Fair Value
Common Stock Held by State Treasurer	\$ 1,708,062	\$ —	\$ 1,708,062
Common Stocks Held by Others	—	332,696	332,696
U. S. Government Securities	—	137,320	137,320
Corporate Bonds	—	51,938	51,938
Pooled Investments*	—	<u>1,762,730</u>	<u>1,762,730</u>
Total Categorized Investments	\$ <u>1,708,062</u>	\$ <u>2,284,684</u>	3,992,746
Miscellaneous			
Other - Held by State Treasurer			<u>1,300</u>
Total Investments			\$ <u><u>3,994,046</u></u>

*Consist of marketable debt and equity securities and U.S. and State government debt instruments.

Blended Component Unit Deposits

The Trust's cash and cash equivalents balance includes cash on deposit with financial institutions of \$824,118 and deposits in money market funds of \$1,757,606. Of these amounts, approximately \$2,007,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$2,623,000 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 have been classified as available-for sale and are carried at fair value. The investments classified as available-for-sale are not actively traded.

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable equity securities		
Common stock	\$3,861,563	\$2,886,757
Mutual funds	425,091	425,091
Certificates of deposits maturing after three months	<u>570,000</u>	<u>570,095</u>
	<u>\$4,856,654</u>	<u>\$3,881,943</u>

The net change in unrealized appreciation of investments for the current year decreased in the amount of \$595,443.

Of the total cash and cash equivalents for the Trust, \$140,530 held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2003.

Management does not believe that significant credit risk is associated with its banking relationships. The difference in reported book balance and the bank and

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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 and, therefore, are in investment credit risk category 1.

Note 3 – Receivables

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2003:

Students and sponsors	\$ 4,044,226
Auxiliary enterprises	3,575,459
Federal grants and contracts	16,754,121
State grants and contracts	705,320
Local grants and contracts	41,625
Non-governmental grants and contracts	3,269,514
Private gifts	4,847,301
Accrued interest	6,982,002
Blended component unit	<u>2,438,792</u>
	42,658,360
Less allowance for doubtful accounts	<u>574,819</u>
Accounts receivable, net	\$ <u><u>42,083,541</u></u>

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

Pledges Receivable

Pledges receivable consist of the Athletic Gamecock Club membership drive and are due by the end of the calendar year. At June 30, 2003, \$2,977,840 are outstanding net of a \$100,000 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 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, 2002, patients accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 2,937,000
Less estimated uncollectible charges	<u>559,000</u>
Patient accounts receivable, net	\$ <u><u>2,378,000</u></u>

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

Student Loans Receivable

Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the University ceased to participate in the programs. As the University determines that loans are uncollectible, the loans are written off and assigned to the federal agency administrating 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 \$35,962,414 of outstanding state capital improvement bond authorization not yet received from the State.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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 this note receivable and the related cumulative accrued interest receivable at June 30, 2003 were \$19,943,910 and \$5,974,412.

Note 4 – Capital Assets

	<u>June 30,2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2003</u>
Capital assets not being depreciated:				
Land and improvements	\$ 50,425,335	\$	\$ 26,791	\$ 50,398,544
Construction in-progress	112,418,002	25,733,149	92,379,453	45,771,698
Works of art and historical treasures	16,005,029			16,005,029
Total capital assets not being depreciated	<u>178,848,366</u>	<u>25,733,149</u>	<u>92,406,244</u>	<u>112,175,271</u>
Other capital assets:				
Land improvements				
Buildings and improvements	642,589,623	120,064,469	26,026	762,628,066
Machinery, equipment, and other	107,490,127	10,577,886	13,906,765	104,161,248
Vehicles	8,033,557	454,756	338,988	8,149,325
Intangibles	4,420,218			4,420,218
Blended Component Unit buildings and improvements	14,987,973	800,075		15,788,048
Blended Component Unit medical and office equipment	<u>6,175,852</u>	<u>616,782</u>	<u>27,186</u>	<u>6,765,448</u>
Total other capital assets at historical cost	<u>783,697,350</u>	<u>132,513,968</u>	<u>14,298,965</u>	<u>901,912,353</u>
Less accumulated depreciation for:				
Land improvements				
Buildings and improvements	255,748,274	20,750,125		276,498,399
Machinery, equipment, and other	71,409,601	9,317,705	13,428,183	67,299,123
Vehicles	5,091,236	772,083	332,197	5,531,122
Intangibles	2,508,435	538,270		3,046,705
Blended Component Unit buildings and improvements	2,184,371	406,966		2,591,337
Blended Component Unit medical and office equipment	<u>4,556,622</u>	<u>503,624</u>	<u>27,186</u>	<u>5,033,060</u>
Total accumulated depreciation	<u>341,498,539</u>	<u>32,288,773</u>	<u>13,787,566</u>	<u>359,999,746</u>
Other capital assets, net	<u>442,198,811</u>	<u>100,225,195</u>	<u>511,399</u>	<u>541,912,607</u>
Capital Assets, Net	<u>\$ 621,047,177</u>	<u>\$ 125,958,344</u>	<u>\$ 92,917,643</u>	<u>\$ 654,087,878</u>

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

Gains on disposals	\$ 489,842
Losses on disposals	485,373
Net gain (loss) on disposals	<u>\$ 4,469</u>

Note 5—Pension Plans

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

South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

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

South Carolina Retirement System

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.70 percent which included a 3.15 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, 2003, 2002, and 2001, were \$15,970,000, \$16,129,000, and \$16,039,000, 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 \$317,000 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, 2002, the employer contribution rate became 13.45 percent which, as for the SCRS, included the 3.15 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2003, 2002, and 2001 were \$287,000, \$274,000, and \$271,000, 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 \$5,600 and accidental death insurance contributions of \$5,600 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.15 percent from the employer in fiscal year 2003.

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 \$5,376,000 (excluding the surcharge) from the University as employer and \$4,273,000 from its employees as plan members. In fiscal year 2003, the University paid \$107,000 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.

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Deferred Compensation Plans

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

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. 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, 2002 and 2001 amounted to \$916,000 and \$993,000, respectively and are 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 \$20,042,000 for the year ended June 30, 2003. As discussed in Note 5, the University paid \$8,994,000 applicable to the 3.15 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.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Note 7—Contingencies, Litigation, And Project Commitments

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

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

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative.

Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$31,000,000 for capital and \$25,000,000 for noncapital projects at June 30, 2003. 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, 2003 were as follows.

Equipment Capital Leases

Year Ending December 31		
2003	\$	88,047
2004		22,356
2005		14,340
2006		6,324
2007		<u>4,216</u>
Total minimum lease payments	\$	135,283
Less interest, executory and other costs		<u>15,647</u>
Present value of minimum lease payments	\$	<u>119,636</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 \$396,886 as of June 30, 2003. Accumulated depreciation of this equipment totaled \$272,529 at June 30, 2003.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Real Property Operating Leases

Year Ending June 30	<u>External Parties</u>	<u>Other State Agencies</u>	<u>Total</u>
2004	\$ 396,286	\$ 14,250	\$ 410,536
2005	209,677	-	209,677
2006	119,212	-	119,212
2007	115,264	-	115,264
2008	42,500	-	42,500
2009-2013	<u>85,000</u>	<u>-</u>	<u>85,000</u>
Total minimum lease payments	<u>\$ 967,939</u>	<u>\$ 14,250</u>	<u>\$ 982,189</u>

In the current year, the University entered into 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, 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 2004-2038. 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 2004 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 \$943,584 for fiscal year 2003. In the current fiscal year, the University incurred expenses of \$1,287,133 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, 2003.

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance June 30, 2003</u>
Revenue BANS			
Series 2002A	3.00%	07/24/03	\$ 13,800,000
Series 2003A	2.00%	03/19/04	6,140,000
Series 2003B	2.00%	03/19/04	<u>8,085,000</u>
Total BANS Payable			<u>\$ 28,025,000</u>

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

During fiscal year 2003, \$13,800,000 general revenue BANS Series 2002A was issued for new student

housing construction and renovation projects, \$6,140,000 athletic facilities revenue BANS Series 2003A, was issued to refinance a portion of the remaining balance of athletic facilities revenue BANS Series 2002A, \$9,400,000 athletic facilities revenue BANS 2002B was issued to refinance the balance of athletic facilities revenue BANS Series 2002, \$8,085,000 athletic facilities revenue BANS Series 2003B was issued to refinance a portion of the

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

remaining balance of athletic facilities revenue BANS Series 2002B and \$8,400,000 state institution BANS Series 2002A was issued to refinance the balance of state institution BANS Series 2002. The \$8,400,000

state institution BANS Series 2002A was redeemed with the issuance of state institution bonds Series 2002E. Short-term debt activity for the year ended June 30, 2003 was as follows:

	June 30, <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2003</u>
State Institution BANS	\$ 8,400,000	\$ 8,400,000	\$ 16,800,000	\$ -
Revenue BANS	<u>16,400,000</u>	<u>37,425,000</u>	<u>25,800,000</u>	<u>28,025,000</u>
Total Short-Term Debt	\$ <u>24,800,000</u>	\$ <u>45,825,000</u>	\$ <u>42,600,000</u>	\$ <u>28,025,000</u>

Note 10 – Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following at June 30, 2003.

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u> <u>June 30, 2003</u>
State Institution Bonds			
Series 1996B	5.0% to 7.0%	04/01/16	\$ 23,160,000
Series 2001B	4.5% to 5.0%	07/01/21	32,945,000
Series 2002E	3.5% to 5.0%	09/01/22	<u>17,085,000</u>
Total State Institution Bonds			<u>73,190,000</u>
Revenue Bonds			
Series 1995	4.75% to 5.0%	05/01/15	5,645,000
Series 1996	5.3% to 6.8%	06/01/26	22,725,000
Series 1997	5.25% to 5.6%	06/01/17	3,610,000
Series 1999A	4.0% to 5.0%	06/01/19	4,315,000
Series 2000A	5.0% to 5.75%	06/01/30	20,275,000
Series 2002	4.0% to 5.5%	05/01/32	<u>21,000,000</u>
Total Revenue Bonds			<u>77,570,000</u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>9,760,000</u>
Total Bonds Payable			\$ <u>160,520,000</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, 2003

Tuition bond fees for the preceding year were \$9,771,358, which results in a legal annual debt service at June 30, 2003 of \$8,794,222. The annual debt service payments for the fiscal year ended June 30, 2003 were \$7,219,455. Tuition revenue pledged in fiscal year 2003 was \$10,009,672 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 2003 were \$4,451,478.

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 2003 were \$641,657 special student fees, \$2,049,531 special admission fee, and \$967,386 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, 2003, the University is in compliance with all related bond covenants of its issued debt.

During the current fiscal year, the University issued state institution bonds in the amount of \$17,085,000 for the redemption of the \$8,400,000 state institution bond anticipation notes Series 2002A and \$8,685,000 of the proceeds for various capital projects.

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, 2002, the interest rate on the bonds was 1.54%.

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

Year ended December 31, 2002	
2003	\$ 420,000
2004	420,000
2005	420,000
2006	425,000
2007	425,000
2208-2012	2,125,000
2013-2017	2,125,000
2018-2022	2,125,000
2023-2025	<u>1,275,000</u>
	\$ <u>9,760,000</u>

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

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
State Institution Bonds					
2004	\$ 2,870,000		\$ 3,441,058		\$ 6,311,058
2005	3,030,000		3,275,983		6,305,983
2006	3,180,000		3,102,045		6,282,045
2007	3,340,000		2,947,170		6,287,170
2008	3,530,000		2,790,532		6,320,532
2009-2013	20,550,000		11,379,788		31,929,788
2014-2018	21,210,000		6,156,431		27,366,431
2019-2023	15,480,000		1,681,800		17,161,800
Total	<u>\$ 73,190,000</u>		<u>\$ 34,774,807</u>		<u>\$ 107,964,807</u>

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Revenue Bonds					
2004	\$ 1,880,000		\$ 4,167,602		\$ 6,047,602
2005	1,995,000		4,070,185		6,065,185
2006	2,100,000		3,966,604		6,066,604
2007	2,225,000		3,856,535		6,081,535
2008	2,340,000		3,748,419		6,088,419
2009-2013	13,675,000		16,837,720		30,512,720
2014-2018	15,320,000		12,934,708		28,254,708
2019-2023	14,930,000		8,868,021		23,798,021
2024-2028	15,415,000		4,400,750		19,815,750
2029-2032	7,690,000		871,150		8,561,150
Total	<u>\$ 77,570,000</u>		<u>\$ 63,721,694</u>		<u>\$ 141,291,694</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Notes Payable

Notes payable consisted of the following at June 30, 2003:

University note payable to acquire rare literary Collection, dated August, 1994, payable in annual installments of \$60,000, matures January 2005, imputed interest rate of 5.16%.	\$ 111,312
University note payable secured by telephone equipment, dated February, 1999, payable in quarterly installments of \$11,804, matures March 2004, interest rate of 3.793%.	34,750
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%.	264,459
University note payable to acquire rare literary Collection, dated January, 2001, payable in annual installments of \$55,000, beginning in 2003 and \$36,667 in 2004 thru 2010, matures July 2009, imputed interest rate of 4.38%.	217,020
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 in 2004 thru 2011, matures June 2011, interest rate of 7.75%.	1,000,000
University note payable to acquire book binding equipment, dated June, 2003, payable in annual installments of \$24,948, beginning in 2003, matures June 2006, interest rate 3.92%.	<u>69,336</u>
Total Notes Payable	\$ <u>1,696,877</u>

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 302,199	\$ 103,143	\$ 405,342
2005	296,938	88,252	385,190
2006	245,441	70,062	315,503
2007	251,274	54,542	305,816
2008	157,242	38,735	195,977
2009-2011	443,783	49,656	493,439
Total	\$ <u>1,696,877</u>	\$ <u>404,390</u>	\$ <u>2,101,267</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Note 11 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

	<u>June 30,</u> <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2003</u>	<u>Due Within</u> <u>One Year</u>
Bonds and Notes Payable and Capital Lease Obligations					
State Institution Bonds	\$ 60,145,000	\$ 17,085,000	\$ 4,040,000	\$ 73,190,000	\$ 2,870,000
Revenue Bonds	79,025,000	—	1,455,000	77,570,000	1,880,000
Blended Component Unit Revenue Bonds	<u>10,180,000</u>	<u>—</u>	<u>420,000</u>	<u>9,760,000</u>	<u>420,000</u>
Subtotal Bonds Payable	149,350,000	17,085,000	5,915,000	160,520,000	5,170,000
Less: Revenue Bonds Unamortized					
Discount	<u>560,229</u>	<u>—</u>	<u>23,110</u>	<u>537,119</u>	<u>23,110</u>
Total Bonds Payable	148,789,771	17,085,000	5,891,890	159,982,881	5,146,890
Notes Payable	1,874,062	90,727	267,912	1,696,877	302,199
Capital Lease Obligations	<u>187,492</u>	<u>26,940</u>	<u>94,796</u>	<u>119,636</u>	<u>75,862</u>
Total Bonds, Notes and Capital Leases	<u>150,851,325</u>	<u>17,202,667</u>	<u>6,254,598</u>	<u>161,799,394</u>	<u>5,524,951</u>
Other Liabilities					
Accrued Compensated Absences	<u>19,147,629</u>	<u>9,381,644</u>	<u>9,280,018</u>	<u>19,249,255</u>	<u>10,147,086</u>
Total Other Liabilities	<u>19,147,629</u>	<u>9,381,644</u>	<u>9,280,018</u>	<u>19,249,255</u>	<u>10,147,086</u>
Total Long-Term Liabilities	\$ <u>169,998,954</u>	\$ <u>26,584,311</u>	\$ <u>15,534,616</u>	\$ <u>181,048,649</u>	\$ <u>15,672,037</u>

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

Note 12 – Related Parties

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. Financial statements for these entities are audited by independent auditors and retained by them. 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.; and the South Carolina Research Institute. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the entities described in this note.

The University excluded these entities from the reporting entity because it is not financially accountable for them. As an amendment to Statement 14, the GASB has issued GASB Statement 39 providing additional guidance to determine if these entities should be reported as component units in financial statements for periods beginning after June 15, 2003. Management will again review its relationship with these entities in accordance with the new standard at its effective date.

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, 2003.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating 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. During the

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

year, the University received 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 University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, 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. During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating 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. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

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. During the year, the University received funds for scholarships from the Association and provided office and meeting space at no cost to the Association.

The Carolina Piedmont Foundation, Inc., was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, and education purposes for the exclusive use and benefit of the University of South Carolina at Spartanburg. During the year, the University received funds from the Foundation for scholarships and reimbursement for personnel services provided by the University.

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which 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. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Research Institute (SCRI) is a not-for profit research foundation which 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. SCRI receives research funding from private sources and also competes for federal funds. During the year, the University received funds from SCRI for research.

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 2003 follows:

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2003

Funds Received from Related Parties

Carolina Piedmont Foundation	\$ 1,107,151
University of South Carolina Development Foundation	3,561
University of South Carolina Business Partnership Foundation	400,447
University of South Carolina Educational Foundation	8,802,519
Greater University of South Carolina Alumni Association	1,574,358
Lancaster County Educational Foundation	218,259
South Carolina Research Institute (SCRI)	<u>42,680,267</u>
	<u>\$54,786,562</u>

The majority of SCRI 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 \$10,610,446 due from SCRI at June 30, 2003.

Funds Paid to Related Parties

University of South Carolina Development Foundation	\$382,003
University of South Carolina Educational Foundation	74,339
University of South Carolina Business Partnership Foundation	7,523
Carolina Piedmont Foundation	79,976
Lancaster County Educational Foundation	<u>117</u>
	<u>\$ 543,958</u>

Another related party of the University is the South Carolina Universities Research and Education Foundation (SCUREF) which was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 2003, the University received \$1,206,176 from SCUREF for research. The majority of SCUREF revenues are recorded by the University as federal grants and contracts revenue. The University recorded \$229,174 due from SCUREF at June 30, 2003, as federal grants and contracts receivable.

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:

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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, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. 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.

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Note 14—Operating Expenses By Function

Operating expenses by functional classification for the year ended June 30, 2003 are summarized as follows:

	Compensation and Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 198,617,730	\$ 18,137,684	\$ 410	\$ 268,366	\$ —	\$ 217,024,190
Research	55,927,725	25,289,633	3,446	372,625	—	81,593,429
Public service	31,147,478	11,595,711	8,720	956,610	—	43,708,519
Academic support	33,011,116	19,090,425	—	43,457	—	52,144,998
Student services	17,645,092	9,812,092	175,525	43,639	—	27,676,348
Institutional support	38,027,081	(2,728,195)	—	22,136	—	35,321,022
Operation and maintenance of plant	20,743,635	13,813,133	14,825,447	8,928	—	49,391,143
Auxiliary Enterprises	23,558,677	37,065,196	4,008,877	2,881,732	—	67,514,482
Scholarships and fellowships	1,780,267	10,820	—	43,610,709	—	45,401,796
Blended Component Unit	20,960,738	13,995,065	—	—	910,590	35,866,393
Depreciation	—	—	—	—	31,378,183	31,378,183
Total Operating Expenses	\$ <u>441,419,539</u>	\$ <u>146,081,564</u>	\$ <u>19,022,425</u>	\$ <u>48,208,202</u>	\$ <u>32,288,773</u>	\$ <u>687,020,503</u>

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2003

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

Noncapital Appropriations

Current year's appropriations:

Original appropriations per Annual Appropriations Act	\$ 218,967,232
Less mid-year reductions	(18,775,986)
Supplemental Appropriation (Proviso 72.98)	1,000,000
Budget and Control Board Allocations	572,440
From Commission on Higher Education	
Technology Initiative	1,340,427
Academic Endowment Incentive	253,894
Transfer from Department of Revenue - EIA	657,126
Transfer from Department of Health and Environmental Control	<u>192,000</u>
Total non-capital appropriations recorded as current year revenue	<u>\$ 204,207,133</u>

Capital Appropriations

Current year's appropriations:

Capital Improvement Bond Acts (CIB)	\$ 6,790,809
Less: Prior year's CIB Receivable	(495,876)
Plus: Current year's CIB Receivable	<u>797,755</u>
Total capital appropriations recorded as current year revenue	<u>\$ 7,092,688</u>

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2003

Information for Statement of Activities

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
University			
Charges for services	\$ 439,854,724	373,598,185	66,256,539
Operating grants and contributions	37,869,794	35,290,738	2,579,056
Capital grants and contributions	6,933,043	11,352,353	(4,419,310)
Less: Expenses	<u>(657,888,128)</u>	<u>(613,383,813)</u>	<u>(44,504,315)</u>
Net program revenue (expense)	<u>(173,230,567)</u>	<u>(193,142,537)</u>	<u>19,911,970</u>
 Additions to permanent endowments	 175,000	 702,490	 (527,490)
Transfers:			
State appropriations	204,207,133	227,305,106	(23,097,973)
Capital improvement bond proceeds	7,092,688	8,846,349	(1,753,661)
Less: Transfers out to state agencies/funds	<u>(1,082,026)</u>	<u>(821,788)</u>	<u>(260,238)</u>
Total contributions and transfers	<u>210,392,795</u>	<u>236,032,157</u>	<u>(25,639,362)</u>
 Change in net assets	 37,162,228	 42,889,620	 (5,727,392)
Net assets - beginning	577,905,649	535,016,029	42,889,620
Net assets - ending	\$ <u>615,067,877</u>	<u>577,905,649</u>	<u>37,162,228</u>

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2003

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Trust			
Charges for services	\$ 21,074,795	21,529,690	(454,895)
Operating grants and contributions	13,689,806	11,797,213	1,892,593
Capital grants and contributions	(6,550)	(85,628)	79,078
Less: Expenses	<u>(36,338,613)</u>	<u>(35,067,696)</u>	<u>(1,270,917)</u>
Net program revenue (expense)	<u>(1,580,562)</u>	<u>(1,826,421)</u>	<u>245,859</u>
 Additions to permanent endowments	 —	 —	 —
Transfers:			
State appropriations	—	—	—
Capital improvement bond proceeds	—	—	—
Less: Transfers out to state agencies/funds	 —	 —	 —
Total contributions and transfers	<u>—</u>	<u>—</u>	<u>—</u>
 Change in net assets	 (1,580,562)	 (1,826,421)	 245,859
Net assets - beginning	13,750,024	15,576,445	(1,826,421)
Net assets - ending	\$ <u><u>12,169,462</u></u>	<u><u>13,750,024</u></u>	<u><u>(1,580,562)</u></u>