



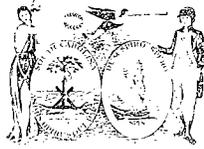
UNIVERSITY OF SOUTH CAROLINA

Financial Statements and Schedules

June 30, 2004

(With Independent Auditors' Report Thereon)

State of South Carolina



Office of the State Auditor

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STATE AUDITOR

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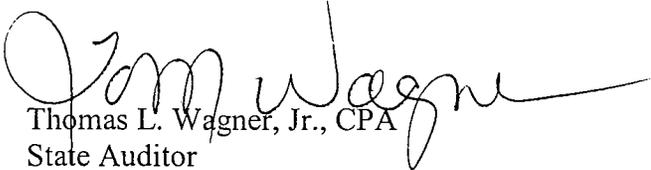
November 10, 2004

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, 2004, 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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Suite 2300
Three Wachovia Center
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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 statements of net assets of the business-type activities and the blended and discretely presented component units of the University of South Carolina (the University), a department of the State of South Carolina, as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows, where applicable, thereof for the year then ended, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); University of South Carolina 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 University of South Carolina Research Foundation (collectively referred to as "Foundations"). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundations, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University of South Carolina are intended to present the financial position, change in financial position and the cash flows, where applicable, of only that portion of the business-type activities and blended and discretely presented component units of the State of South Carolina that is attributable to blended and discretely presented component units 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, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the University of South Carolina and the blended and discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the University adopted Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, effective as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

KPMG LLP

October 1, 2004

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 2004. While audited financial statements for fiscal year 2003 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the primary institution – the University of South Carolina – and will not include its blended component unit – the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan. Neither will this discussion include the discretely presented component units – the University of South Carolina’s Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, the Carolina Piedmont Foundation and the Lancaster County Educational Foundation.

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

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

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

Summary of Net Assets

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

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

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

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

Summary of Net Assets

	<u>2004</u>	<u>2003</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 226,444,887	\$ 202,294,577	\$ 24,150,310	11.94%
Capital Assets, Net	663,449,011	639,158,779	24,290,232	3.80%
Other Assets	<u>50,272,146</u>	<u>49,515,967</u>	<u>756,179</u>	1.53%
Total Assets	<u>940,166,044</u>	<u>890,969,323</u>	<u>49,196,721</u>	5.52%
Liabilities				
Current Liabilities	113,231,208	100,331,522	12,899,686	12.86%
Noncurrent Liabilities	<u>185,083,489</u>	<u>175,569,924</u>	<u>9,513,565</u>	5.42%
Total Liabilities	<u>298,314,697</u>	<u>275,901,446</u>	<u>22,413,251</u>	8.12%
Net Assets				
Invested in capital assets, net of related debt	459,928,243	459,214,021	714,222	0.16%
Restricted - nonexpendable	11,895,005	11,142,043	752,962	6.76%
Restricted - expendable	26,197,579	18,297,975	7,899,604	43.17%
Unrestricted	<u>143,830,520</u>	<u>126,413,838</u>	<u>17,416,682</u>	13.78%
Total Net Assets	<u>\$ 641,851,347</u>	<u>\$ 615,067,877</u>	<u>\$ 26,783,470</u>	4.35%

- Total Assets of the University increased by \$49.2 million. Capital assets increased \$24.3 million, primarily due to major building projects completed and in progress. Total cash and cash equivalents increased \$24.2 million, driven by the increase in unrestricted net assets and restricted expendable net assets for capital projects and debt service.
- The increase in Current Liabilities is attributable to a net increase in short term debt and a decrease in deferred revenues.
- The \$9.5 million increase in Noncurrent Liabilities is attributable to issuance of long term bonds and an increase in deferred revenues..
- Net Assets of the University increased during the year by \$26.8 million. The increase is driven largely by a \$17.4 million increase in unrestricted net assets and a \$7.9 million increase in restricted expendable net assets.

Summary of Revenues, Expenses and Changes in Net Assets

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

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

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

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

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

Summary of Revenues, Expenses and Changes in Net Assets	<u>2004</u>	<u>2003</u>	<u>Increase/ Decrease</u>	<u>Percent Change</u>
Operating Revenues:				
Student tuition and fees	\$ 247,648,642	\$ 210,425,785	\$ 37,222,857	17.69%
Less scholarship allowance	56,781,483)	(41,016,263)	(15,765,220)	38.44%
Federal grants and contracts	122,815,472	112,944,318	9,871,154	8.74%
State grants and contracts	54,292,147	50,939,294	3,352,853	6.58%
Local grants and contracts	920,173	823,021	97,152	11.80%
Nongovernmental grants and contracts	19,756,796	17,134,963	2,621,833	15.30%
Sales and services of educational and other activities	15,788,221	16,056,444	(268,223)	(1.67%)
Sales and services of auxiliary enterprises	75,347,079	69,485,172	5,861,907	8.44%
Less scholarship allowance	(2,598,803)	(2,837,421)	238,618	(8.41%)
Interest collected on student loans	298,210	285,284	12,926	4.53%
Other fees	5,948,183	5,614,127	334,056	5.95%
Other operating revenues	<u>3,012,848</u>	<u>1,797,713</u>	<u>1,215,135</u>	67.59%
Total operating revenues	<u>486,447,485</u>	<u>441,652,437</u>	<u>44,795,048</u>	10.14%
Operating Expenses:				
Compensation and employee benefits	428,645,703	420,458,801	8,186,902	1.95%
Services and supplies	147,573,608	132,086,499	15,487,109	11.72%
Utilities	20,455,611	19,022,425	1,433,186	7.53%
Scholarships and fellowships	45,211,409	48,208,202	(2,996,793)	(6.22%)
Depreciation expense	<u>32,732,245</u>	<u>31,378,183</u>	<u>1,354,062</u>	4.32%
Total operating expenses	<u>674,618,576</u>	<u>651,154,110</u>	<u>23,464,466</u>	3.60%
Operating loss	(188,171,091)	(209,501,673)	21,330,582	(10.18%)
Non-operating revenues (expenses)	<u>209,079,818</u>	<u>233,545,196</u>	<u>(24,465,378)</u>	(10.48%)
Income before other revenues, expenses, and transfers	20,908,727	24,043,523	(3,134,796)	(13.04%)
Other revenues, expenses, and transfers	<u>5,874,743</u>	<u>13,118,705</u>	<u>(7,243,962)</u>	(55.22%)
Increase in net assets	26,783,470	37,162,228	(10,378,758)	(27.93%)
Net assets at beginning of year	<u>615,067,877</u>	<u>577,905,649</u>	<u>37,162,228</u>	6.43%
Net assets at end of year	<u>\$ 641,851,347</u>	<u>\$ 615,067,877</u>	<u>\$ 26,783,470</u>	4.35%

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

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

- A net \$21.5 million increase in student tuition and fees, a \$15.9 million increase in grant and contract revenues, and a \$5.8 million increase in sales and services were largely responsible for the overall \$44.8 million increase in Operating Revenues. The increase in student tuition and fees is a result of a minor increase in enrollment and a 15 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 \$23.5 million or 3.6 percent. The largest increases occurred in utilities and services and supplies. Utilities increased due to rate increases and the addition of major capital buildings. Services and supplies increased because of the increase in grant and contract obligations.
- The \$24.5 million decline in Non-operating revenues and expenses was primarily attributable to a decrease in state appropriations as a result of state budget reductions.
- State capital appropriations and other capital grants and gifts declined approximately \$7.3 million.

Statement of Cash Flows

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

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

Capital Asset and Debt Administration

The University placed several significant buildings in service during fiscal year 2004. A new renovated multi-purpose administration and training center opened in January, 2004 and a renovated nano-technology research center was completed during the year. A new 500 bed student housing project is scheduled to open in August, 2004. The University’s indebtedness consists of bonds payable of \$157,760,991, bond anticipation notes of \$44,310,000 and notes payable of \$1,449,777. During the current year, \$12,500,000 bonds were issued to fund various capital projects and a \$32,700,000 bond anticipation note was issued to redeem a \$13,800,000 bond anticipation note and to provide additional funds for a new student housing construction project.

Economic Outlook

The economic position of the University is somewhat tied to that of the State of South Carolina. The state closed fiscal year 2004 with a funds surplus for the first time in two years. Higher Education funding from the state for fiscal year 2005 will remain approximately at the same 2004 funding level.

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 fund levels at the time fees were established and has anticipated the same level of funding.

UNIVERSITY OF SOUTH CAROLINA

Statement of Net Assets

June 30, 2004

ASSETS	University	Trust	Total
Current assets:			
Cash and cash equivalents	\$ 147,919,766	\$ 1,977,421	\$ 149,897,187
Investments	-	4,854,004	4,854,004
Accounts receivable, net	41,803,996	2,919,220	44,723,216
Pledges receivable	3,008,410	-	3,008,410
Student loans receivable, current	17,422	-	17,422
Patients accounts receivable, net	-	2,499,000	2,499,000
Capital improvement bonds proceeds receivable	422,923	-	422,923
Inventories	2,450,618	-	2,450,618
Prepaid items	5,220,881	-	5,220,881
Restricted cash and cash equivalents	23,755,403	-	23,755,403
Funds due from others	1,845,468	-	1,845,468
Total current assets	<u>226,444,887</u>	<u>12,249,645</u>	<u>238,694,532</u>
Noncurrent assets:			
Investments	4,233,479	-	4,233,479
Note receivable	19,943,910	-	19,943,910
Restricted cash and cash equivalents	4,897,092	-	4,897,092
Restricted - federal student loans receivable	18,870,773	-	18,870,773
Capital assets, net of accumulated depreciation	663,449,011	14,543,301	677,992,312
Other assets	2,326,892	-	2,326,892
Total noncurrent assets	<u>713,721,157</u>	<u>14,543,301</u>	<u>728,264,458</u>
Total assets	<u>940,166,044</u>	<u>26,792,946</u>	<u>966,958,990</u>
LIABILITIES			
Current liabilities:			
Accounts payable	16,022,566	3,175,013	19,197,579
Retainage payable - current portion	1,603,734	-	1,603,734
Accrued interest payable	2,411,474	-	2,411,474
Accrued payroll and related liabilities	7,973,160	85,984	8,059,144
Accrued compensated absences - current portion	9,630,223	706,270	10,336,493
Short - term debt	44,310,000	-	44,310,000
Long-term liabilities - current portion	5,725,607	434,412	6,160,019
Deferred revenues	22,221,768	-	22,221,768
Deposits	1,924,454	-	1,924,454
Other liabilities	395,085	-	395,085
Funds held for others	1,013,137	-	1,013,137
Total current liabilities	<u>113,231,208</u>	<u>4,401,679</u>	<u>117,632,887</u>
Noncurrent liabilities:			
Retainage payable	128,327	-	128,327
Accrued compensated absences	8,889,436	-	8,889,436
Deferred revenues	3,771,666	-	3,771,666
Federal loan funds	18,808,899	-	18,808,899
Long-term liabilities	153,485,161	8,949,363	162,434,524
Other liabilities	-	716,988	716,988
Total noncurrent liabilities	<u>185,083,489</u>	<u>9,666,351</u>	<u>194,749,840</u>
Total liabilities	<u>298,314,697</u>	<u>14,068,030</u>	<u>312,382,727</u>
NET ASSETS			
Invested in capital assets, net of related debt	459,928,243	5,159,526	465,087,769
Restricted for:			
Nonexpendable			
Endowments	11,895,005	-	11,895,005
Expendable			
Scholarships, research, instruction, and other	5,005,596	-	5,005,596
Loans	3,001,434	-	3,001,434
Capital projects	12,936,521	-	12,936,521
Debt service	5,254,028	-	5,254,028
Unrestricted	143,830,520	7,565,390	151,395,910
Total net assets	<u>\$ 641,851,347</u>	<u>\$ 12,724,916</u>	<u>\$ 654,576,263</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2004

	University	Trust	Total
REVENUES			
Operating Revenues:			
Student tuition and fees (\$12,170,310 pledged as security for bonds)	\$ 247,648,642	\$ -	\$ 247,648,642
Less scholarship allowance	(56,781,483)	-	(56,781,483)
Patient services, net	-	21,061,874	21,061,874
Federal grants and contracts	122,815,472	-	122,815,472
State grants and contracts	54,292,147	-	54,292,147
Local grants and contracts	920,173	-	920,173
Nongovernmental grants and contracts	19,756,796	-	19,756,796
Sales and services of educational and other activities	15,788,221	-	15,788,221
Sales and services of auxiliary enterprises (\$6,252,469 pledged as security for bonds)	75,347,079	-	75,347,079
Less scholarship allowance	(2,598,803)	-	(2,598,803)
Interest collected on student loans	298,210	-	298,210
Other fees (\$2,419,158 pledged as security for bonds)	5,948,183	-	5,948,183
Other operating revenues	3,012,848	14,012,636	17,025,484
Total operating revenues	<u>486,447,485</u>	<u>35,074,510</u>	<u>521,521,995</u>
EXPENSES			
Operating Expenses:			
Compensation and employee benefits	428,645,703	21,005,587	449,651,290
Services and supplies	147,573,608	13,044,624	160,618,232
Utilities	20,455,611	-	20,455,611
Scholarships and fellowships	45,211,409	-	45,211,409
Depreciation expense	32,732,245	876,394	33,608,639
Total operating expenses	<u>674,618,576</u>	<u>34,926,605</u>	<u>709,545,181</u>
Operating (loss)income	<u>(188,171,091)</u>	<u>147,905</u>	<u>(188,023,186)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	182,942,764	-	182,942,764
Gifts	28,522,299	-	28,522,299
Investment income	2,996,446	854,937	3,851,383
Endowment income	1,780,493	-	1,780,493
Loss on disposal of capital assets, net	(225,911)	-	(225,911)
Interest on capital asset related debt	(8,365,499)	(447,388)	(8,812,887)
Other nonoperating revenues	1,429,226	-	1,429,226
Net nonoperating revenues (expenses)	<u>209,079,818</u>	<u>407,549</u>	<u>209,487,367</u>
Income before other revenues, expenses, and transfers	<u>20,908,727</u>	<u>555,454</u>	<u>21,464,181</u>
State capital appropriations	4,227,119	-	4,227,119
Capital grants and gifts	2,455,883	-	2,455,883
Additions to permanent endowments	539,000	-	539,000
Transfers to/from other state funds	(1,347,259)	-	(1,347,259)
Increase in net assets	<u>26,783,470</u>	<u>555,454</u>	<u>27,338,924</u>
NET ASSETS			
Net assets - beginning of year	615,067,877	12,169,462	627,237,339
Net assets - end of year	<u>\$ 641,851,347</u>	<u>\$ 12,724,916</u>	<u>\$ 654,576,263</u>

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2004

	University	Trust	Total
Cash flows from operating activities			
Student tuition and fees	\$ 187,436,565	\$ -	\$ 187,436,565
Patient services, net		20,940,874	20,940,874
Research grants and contracts	195,009,776	-	195,009,776
Sales and services of educational and other activities	17,802,264	-	17,802,264
Sales and services of auxiliary enterprises	70,061,120	-	70,061,120
Student loans disbursed	(4,383,729)	-	(4,383,729)
Student loans collected	4,004,111	-	4,004,111
Interest collected on student loans	298,210	-	298,210
Inflows from federal family education loans	144,111,807	-	144,111,807
Outflows from federal family education loans	(144,672,562)	-	(144,672,562)
Payments to employees for services	(429,060,290)	(20,919,671)	(449,979,961)
Payments to suppliers	(165,313,808)	(12,746,140)	(178,059,948)
Payments to students for scholarships and fellowships	(45,211,409)	-	(45,211,409)
Other receipts	8,906,849	13,532,208	22,439,057
Inflows from agency funds	36,199,058	-	36,199,058
Outflows from agency funds	(35,644,068)	-	(35,644,068)
Net cash provided (used) by operating activities	<u>(160,456,106)</u>	<u>807,271</u>	<u>(159,648,835)</u>
Cash flows from non-capital financing activities			
State appropriations	182,942,764	-	182,942,764
Gifts for other than capital purposes	31,795,709	-	31,795,709
Additions to permanent endowments	539,000	-	539,000
Other nonoperating revenues (expenses)	1,429,226	-	1,429,226
Transfers to/from other state agencies	(1,347,259)	-	(1,347,259)
Federal loan liability	(70,919)	-	(70,919)
Net cash provided by noncapital financing activities	<u>215,288,521</u>	<u>-</u>	<u>215,288,521</u>
Cash flows from capital and related financing activities			
Proceeds from capital debt	56,810,000	-	56,810,000
State capital appropriations	4,601,952	-	4,601,952
Capital grants and gifts	3,125,359	-	3,125,359
Gain on disposal of capital assets	48,262	-	48,262
Purchase and construction of capital assets	(56,866,341)	(608,733)	(57,475,074)
Principal paid on capital asset related debt	(33,341,605)	(495,861)	(33,837,466)
Interest paid on capital asset related debt	(8,274,680)	(447,388)	(8,722,068)
New cash used by capital and related financing activities	<u>(33,897,053)</u>	<u>(1,551,982)</u>	<u>(35,449,035)</u>
Cash flows from investing activities			
Purchase of investments	-	(2,306,069)	(2,306,069)
Proceeds from the sale of investments	16,064	2,358,158	2,374,222
Investment income	1,808,089	88,319	1,896,408
Endowment income	1,440,435	-	1,440,435
Net cash provided by investing activities	<u>3,264,588</u>	<u>140,408</u>	<u>3,404,996</u>
Net increase (decrease) in cash and cash equivalents	<u>24,199,950</u>	<u>(604,303)</u>	<u>23,595,647</u>
Cash and cash equivalents, beginning of year	<u>152,372,311</u>	<u>2,581,724</u>	<u>154,954,035</u>
Cash and cash equivalents, end of year	<u>\$ 176,572,261</u>	<u>\$ 1,977,421</u>	<u>\$ 178,549,682</u>
Reconciliation of net operating revenues (expenses) to net cash provided by (used in) operating activities:			
Operating revenues over(under) expenses	\$ (188,171,091)	\$ 147,905	\$ (188,023,186)
Adjustments to reconcile operating income(loss) to net cash used by operating activities			
Depreciation expense	32,732,245	876,394	33,608,639
Changes in current assets and liabilities			
Accounts receivables, net	(4,711,966)	(480,428)	(5,192,394)
Patients accounts receivables, net		(121,000)	(121,000)
Student loans receivable	273,347	-	273,347
Inventories	(100,767)	-	(100,767)
Prepaid items	(1,393,890)	-	(1,393,890)
Accounts payable	3,550,195	642,936	4,193,131
Retainage payable	6,908	-	6,908
Accrued payroll and related liabilities	(358,392)	53,047	(305,345)
Accrued compensated absences	(56,195)	32,869	(23,326)
Deferred revenues	(3,186,489)	-	(3,186,489)
Deposits	757,195	-	757,195
Other liabilities	208,559	(344,452)	(135,893)
Funds held for others	(5,765)	-	(5,765)
Net cash provided by (used in) operating activities	<u>\$ (160,456,106)</u>	<u>\$ 807,271</u>	<u>\$ (159,648,835)</u>
Non-cash transactions:			
Gifts of capital assets reducing proceeds of capital grants and gifts	\$ 703,050	\$ -	\$ 703,050
Losses on disposal of capital assets	<u>\$ (274,173)</u>	<u>\$ -</u>	<u>\$ (274,173)</u>
Capitalized interest reducing interest paid on capital asset related debt	\$ 101,234	\$ -	\$ 101,234
Change in value of investments recognized in endowment income	\$ 239,433	\$ 1,026,150	\$ 1,265,583
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	\$ 84,561	\$ -	\$ 84,561
Student loans cancelled	\$ 652,965	\$ -	\$ 652,965

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Net Assets

	June 30,2004
	University of
	South Carolina
	Research
	Foundation
	<u> </u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,089,159
Restricted cash and cash equivalents	6,259,588
Accounts receivable	13,534,035
Prepaid expenses and deposits	5,739
Total current assets	<u>25,888,521</u>
Total assets	<u>25,888,521</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	13,117,388
Deferred revenue	5,637,621
Total current liabilities	<u>18,755,009</u>
Total liabilities	<u>18,755,009</u>
NET ASSETS	
Restricted - expendable for research	1,505,345
Unrestricted	5,628,167
Total net assets	<u>\$ 7,133,512</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Governmental Discretely Presented Component Unit

Statement of Revenues, Expenses and Changes in Net Assets

	June 30,2004
	University of
	South Carolina
	Research
	Foundation
	<u> </u>
REVENUES	
Operating revenues	
Federal grants and contracts	\$ 59,752,749
Nongovernmental grants and contracts	5,666,104
Management fees and recoveries	13,666,009
Royalty income	15,783
Rental income	86,323
Other operating revenues	119,062
Total operating revenues	<u>79,306,030</u>
EXPENSES	
Operating Expenses	
Salaries and benefits	805,045
Services and supplies	701,005
Research and development direct costs	74,633,295
Total operating expenses	<u>76,139,345</u>
Operating income	<u>3,166,685</u>
NONOPERATING REVENUES (EXPENSES)	
Private gifts and donations	(1,868,234)
Interest income	36,937
Insurance proceeds	422
Net nonoperating expenses	<u>(1,830,875)</u>
Change in net assets	1,335,810
Net assets at beginning of year	<u>5,797,702</u>
Net assets at end of year	<u>\$ 7,133,512</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Statement of Financial Position

	June 30,2004	June 30,2004	June 30,2004	June 30,2004	June 30,2004	December 31, 2003	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	Lancaster County Educational Foundation, Inc	Total
ASSETS							
Cash and cash equivalents	\$ 3,755,760	\$ 15,054,627	\$ 3,294,693	\$ 2,437,917	\$ 370,712	\$ 39,711	\$ 24,953,420
Investments	14,468,540	160,196,648	22,783,973	2,977,193	4,600,142	2,908,306	207,934,802
Real estate held for investment	25,120,504	375,907					25,496,411
Assets held in trust		47,716,957			774,050		48,491,007
Accounts receivable	1,273,263	363,476	439,872	343,818	1,791		2,422,220
Contributions receivable, net		24,179,063	749,142		872,990		25,801,195
Prepaid expenses	27,909	25,502	18,544	749,708	296,468		1,118,131
Other assets	232,222		58,962	32,399	9,476		333,059
Capital assets, net of depreciation	5,762,213	71,934		10,903	14,184,299	692,660	20,722,009
Total assets	<u>\$ 50,640,411</u>	<u>\$ 247,984,114</u>	<u>\$ 27,345,186</u>	<u>\$ 6,551,938</u>	<u>\$ 21,109,928</u>	<u>\$ 3,640,677</u>	<u>\$ 357,272,254</u>
LIABILITIES							
Accounts payable	\$ 476,533	\$ 10,601,890	\$ 703,593	\$ 299,274	\$ 782,470	\$ 36,550	\$ 12,900,310
Deferred revenues			38,095	1,522,430			1,560,525
Bonds and notes payable	16,467,680	20,243,910			16,528,710		53,240,300
Other liabilities	1,910,135				1,108,558		3,018,693
Total liabilities	<u>18,854,348</u>	<u>30,845,800</u>	<u>741,688</u>	<u>1,821,704</u>	<u>18,419,738</u>	<u>36,550</u>	<u>70,719,828</u>
NET ASSETS							
Unrestricted	20,298,847	21,313,625	3,340,404	4,455,137	(146,661)	417,219	49,678,571
Temporarily restricted	8,230,788	71,460,228	6,796,024	275,097	419,818		87,181,955
Permanently restricted	3,256,428	124,364,461	16,467,070		2,417,033	3,186,908	149,691,900
Total net assets	<u>31,786,063</u>	<u>217,138,314</u>	<u>26,603,498</u>	<u>4,730,234</u>	<u>2,690,190</u>	<u>3,604,127</u>	<u>286,552,426</u>
Total liabilities and net assets	<u>\$ 50,640,411</u>	<u>\$ 247,984,114</u>	<u>\$ 27,345,186</u>	<u>\$ 6,551,938</u>	<u>\$ 21,109,928</u>	<u>\$ 3,640,677</u>	<u>\$ 357,272,254</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Statement of Activities

	June 30,2004	June 30,2004	June 30,2004	June 30,2004	June 30,2004	December 31, 2003	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	Lancaster County Education Foundation, Inc.	Total
CHANGES IN UNRESTRICTED NET ASSETS:							
Revenues, gains and other support							
Contributions	\$ 142,237	\$ 9,181,925	\$ 466,858	\$ 1,697,634	\$ 408,981	\$ 42,550	\$ 11,940,185
Investment Income	253,043	3,334,619	84,029	108,635	128,158	53,992	3,962,476
Net realized and unrealized gains	2,180,377	16,174,181	323,648	371,484	318,556		19,368,246
Earned income	651,747		1,682,031	1,864,584	82,444	4,015	4,284,821
Miscellaneous income	460,213	566,230			6,600		1,033,043
Gain (loss) on disposal of assets	545,238				(27,027)		518,211
Net assets released from restrictions:							
Restrictions satisfied by payments	861,145			354,668		90,609	1,306,422
Satisfaction of program restrictions		785,436	2,726,730		1,635,751	152,474	5,300,391
Expiration of time restrictions							-
Total revenues, gains and other support	<u>5,094,000</u>	<u>30,042,391</u>	<u>5,283,296</u>	<u>4,397,005</u>	<u>2,553,463</u>	<u>343,640</u>	<u>47,713,795</u>
Expenses							
Scholarships and student assistance		5,738,714	1,286,990	593,882	56,574	54,050	7,730,210
Program services		8,825,954	3,156,071	1,721,248	1,768,854	8,650	15,480,777
Supporting services	3,202,898	2,531,899	154,499	827,367	921,775	69,940	7,708,378
Other expenses							-
Total expenses	<u>3,202,898</u>	<u>17,096,567</u>	<u>4,597,560</u>	<u>3,142,497</u>	<u>2,747,203</u>	<u>132,640</u>	<u>30,919,365</u>
Excess revenues over (under) expenses	1,891,102	12,945,824	685,736	1,254,508	(193,740)	211,000	16,794,430
Interest rate swap fair value adjustment					773,661		773,661
Change in unrestricted net assets	<u>1,891,102</u>	<u>12,945,824</u>	<u>685,736</u>	<u>1,254,508</u>	<u>579,921</u>	<u>211,000</u>	<u>17,568,091</u>

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA

Non-Governmental Discretely Presented Component Units

Statement of Activities

	June 30,2004	June 30,2004	June 30,2004	June 30,2004	June 30,2004	December 31, 2003	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Carolina Piedmont Foundation, Inc.	Lancaster County Educational Foundation, Inc.	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS							
Contributions	1,561,302	658,097	2,446,165	26,304	1,146,814		5,838,682
Investment Income	4,852	409,779	598,677				1,013,308
Net realized and unrealized gains	50,219	8,263,514	2,001,731				10,315,464
Other	7,356	12,495		177,850	316,465		514,166
Net assets released from restrictions:							-
Restrictions satisfied by payments	(861,145)			(354,668)			(1,215,813)
Satisfaction of program restrictions		(2,155,704)	(2,571,219)		(1,635,751)		(6,362,674)
Expiration of time restrictions		(517,807)					(517,807)
Change in temporarily restricted net assets	762,584	6,670,374	2,475,354	(150,514)	(172,472)	-	9,585,326
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS							
Contributions		4,992,991	1,536,048		45,374	31,025	6,605,438
Other		38,046				340,586	378,632
Net assets released from restrictions:							-
Satisfaction of program restrictions		1,370,268	(155,511)			(243,083)	971,674
Expiration of time restrictions		517,807					517,807
Change in permanently restricted net assets	-	6,919,112	1,380,537	-	45,374	128,528	8,473,551
Change in net assets	2,653,686	26,535,310	4,541,627	1,103,994	452,823	339,528	35,626,968
Net assets at beginning of year	29,132,377	190,603,004	22,061,871	3,626,240	2,237,367	3,264,599	250,925,458
Net assets at end of year	\$ 31,786,063	\$ 217,138,314	\$ 26,603,498	\$ 4,730,234	\$ 2,690,190	\$ 3,604,127	\$ 286,552,426

See accompanying notes to financial statements

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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. For the year ended June 30, 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements now include the University and its blended component unit, as the primary government and other related entities as discretely presented component units.

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

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

can be obtained at the University of South Carolina School of Medicine

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

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

Financial Statements

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

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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

Investments

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

Accounts Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Prepaid Items

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization

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

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

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2004 was \$101,234.

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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.

Net Assets

The University's net assets are classified as follows:

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

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

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

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

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to

the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Donor- Restricted Assets

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

Income Taxes

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

Classification of Revenues

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

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

These revenues include:

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

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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

Scholarship Discounts and Allowances

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

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

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

Rebatable Arbitrage

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier.

However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2004.

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)	\$ 149,897,187	Cash on hand	\$ 127,802
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	176,379,963
Debt service	8,248,214	Other deposits	64,496
Capital projects	15,507,189	Blended component unit deposits	1,977,421
Restricted cash and cash equivalents (non-current):		Investments held by State Treasurer	1,814,605
Endowments	2,168,652	Other investments	2,418,874
Federal student loans	2,728,440	Blended component unit investments	4,854,004
Investments (current)	4,854,004		
Investments (non-current)	4,233,479		
	<u>\$ 187,637,165</u>		<u>\$ 187,637,165</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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, 2004, 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 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 appreciation of investments for the current fiscal year increased in the amount of \$255,497.

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, 2004 by category of credit risk follows:

	Category <u>1</u>	Category <u>3</u>	Fair Value
Common Stock Held by State Treasurer	\$ 1,813,305	\$ —	\$ 1,813,305
Common Stocks Held by Others	—	363,834	363,834
U. S. Government Securities	—	105,914	105,914
Corporate Bonds	—	102,900	102,900
Pooled Investments*	—	1,846,226	1,846,226
Total Categorized Investments	\$ <u>1,813,305</u>	\$ <u>2,418,874</u>	4,232,179
Miscellaneous			
Other - Held by State Treasurer			<u>1,300</u>
Total Investments			\$ <u><u>4,233,479</u></u>

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Blended Component Unit Deposits

The Trust's cash and cash equivalents balance includes cash on deposit with financial institutions of \$796,791 and deposits in money market funds of \$1,180,630. At December 31, 2003, the Trust had demand deposits and sweep accounts with banks totaling \$3,326,000. Of these amounts, approximately \$2,113,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$1,600,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement.

Blended Component Unit Investments

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

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable equity securities		
Common stock	\$3,632,850	3,684,606
Mutual funds	729,620	729,620
Certificates of deposits maturing after three months	<u>440,095</u>	<u>439,778</u>
	<u>\$4,802,565</u>	<u>\$4,854,004</u>

The net change in unrealized appreciation of investments for the current year increased in the amount of \$1,026,150.

Of the total cash and cash equivalents for the Trust, \$140,135 held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2004.

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

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name and, therefore, are in investment credit risk category 1.

Note 3 – Receivables

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2004:

Students and sponsors	\$ 7,143,433
Auxiliary enterprises	4,416,075
Federal grants and contracts	18,192,994
State grants and contracts	354,375
Local grants and contracts	76,533
Non-governmental grants and contracts	2,916,563
Private gifts	1,106,226
Accrued interest	8,170,359
Blended component unit	<u>2,919,220</u>
	45,295,778
Less allowance for doubtful accounts	<u>572,562</u>
Accounts receivable, net	\$ <u><u>44,723,216</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, 2004, \$3,008,410 are outstanding net of a \$150,000 allowance.

Patients Accounts Receivable

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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, 2003, patients accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 3,197,000
Less estimated uncollectible charges	<u>698,000</u>
Patient accounts receivable, net	\$ <u>2,499,000</u>

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

Student Loans Receivable

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

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal

government if the University ceased to participate in the programs.

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

Capital Improvement Bonds Proceeds Receivable

The capital improvement bonds proceeds 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 \$31,735,295 of outstanding state capital improvement bond authorization not yet received from the State.

Notes Receivable

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

The principal balance of \$19,943,910 and the related cumulative accrued interest receivable of \$7,148,884, respectively is included in the Note Receivable, and Accounts Receivable, net at June 30, 2004.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Note 4 – Capital Assets

	<u>June 30,2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2004</u>
Capital assets not being depreciated:				
Land and improvements	\$ 50,398,544	\$ 558,050	\$	\$ 50,956,594
Construction in-progress	45,771,698	32,020,223	18,307,451	59,484,470
Works of art and historical treasures	16,005,029			16,005,029
Total capital assets not being depreciated	<u>112,175,271</u>	<u>32,578,273</u>	<u>18,307,451</u>	<u>126,446,093</u>
Other capital assets:				
Land improvements				
Buildings and improvements	762,628,066	31,159,100	104	793,787,062
Machinery, equipment, and other	104,161,248	11,724,646	3,986,015	111,899,879
Vehicles	8,149,325	563,009	130,518	8,581,816
Intangibles	4,420,218	98,374	285,167	4,233,425
Blended Component Unit buildings and improvements	15,788,048	552,395	135,073	16,205,370
Blended Component Unit medical and office equipment	<u>6,765,448</u>	<u>59,646</u>	<u>1,421,987</u>	<u>5,403,107</u>
Total capital assets at historical cost	<u>901,912,353</u>	<u>44,157,170</u>	<u>5,958,864</u>	<u>940,110,659</u>
Less accumulated depreciation for:				
Land improvements				
Buildings and improvements	276,498,399	21,556,236		298,054,635
Machinery, equipment, and other	67,299,123	9,952,048	3,228,291	74,022,880
Vehicles	5,531,122	706,804	130,518	6,107,408
Intangibles	3,046,705	517,157	249,521	3,314,341
Blended Component Unit buildings and improvements	2,591,337	466,880	34,657	3,023,560
Blended Component Unit medical and office equipment	<u>5,033,060</u>	<u>409,514</u>	<u>1,400,958</u>	<u>4,041,616</u>
Total accumulated depreciation	<u>359,999,746</u>	<u>33,608,639</u>	<u>5,043,945</u>	<u>388,564,440</u>
Other capital assets, net	<u>541,912,607</u>	<u>10,548,531</u>	<u>914,919</u>	<u>551,546,219</u>
Capital Assets, Net	<u>\$ 654,087,878</u>	<u>\$ 43,126,804</u>	<u>\$ 19,222,370</u>	<u>\$ 677,992,312</u>

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

Gains on disposals	\$ 48,262
Losses on disposals	<u>274,173</u>
Net gain (loss) on disposals	<u>\$ (225,911)</u>

Note 5—Pension Plans

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

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

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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, 2003, the employer contribution rate became 10.85 percent which included a 3.30 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, 2004, 2003, and 2002, were \$15,807,000, \$15,970,000, and \$16,129,000, 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 \$314,000 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, 2003, the employer contribution rate became 13.60 percent which, as for the SCRS, included the 3.30 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2004, 2003, and 2002 were \$283,000, \$287,000, and \$274,000, 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 \$5,500 and accidental death insurance contributions of \$5,500 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

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 \$6,050,000 (excluding the surcharge) from the University as employer and \$4,808,000 from its employees as plan members. In fiscal year 2004, the University paid \$120,000 for group-life insurance coverage for these employees. All amounts were

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

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

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. 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 year ended December 31, 2003 amounted to \$949,000 and is included as a component of personal services and related expenses.

Note 6—Postemployment And Other Employee Benefits

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

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

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$20,289,000 for the year ended June 30, 2004. As discussed in Note 5, the University paid \$9,644,000 applicable to the 3.30 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.

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

Note 7—Contingencies, Litigation, And Project Commitments

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

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 \$21,000,000 for capital and \$36,000,000 for noncapital projects at June 30, 2004. 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, 2004 were as follows.

Equipment Capital Leases

	Year Ending December 31	
	2004	22,356
	2005	19,656
	2006	11,640
	2007	<u>4,216</u>
Total minimum lease payments	\$	57,868
Less interest, executory and other costs		<u>14,093</u>
Present value of minimum lease payments	\$	<u><u>43,775</u></u>

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

All equipment capital leases are classified as machinery, equipment and other in Note 4. The historical cost of assets held under capital leases totaled \$67,505 as of June 30, 2004. Accumulated depreciation of this equipment totaled \$33,379 at June 30, 2004.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Real Property Operating Leases

Year Ending June 30	<u>External Parties</u>	<u>Other State Agencies</u>	<u>Total</u>
2005	\$ 418,560	\$ -	\$ 418,560
2006	252,326	-	252,326
2007	140,353	-	140,353
2008	92,810	-	92,810
2009	42,500	-	42,500
2010	<u>42,500</u>	<u>-</u>	<u>42,500</u>
Total minimum lease payments	<u>\$ 989,049</u>	<u>\$ -</u>	<u>\$ 989,049</u>

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

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2005-2038. These

noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 2005 to 2030 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total real property operating lease payments were \$874,946 for fiscal year 2004. In the current fiscal year, the University incurred expenses of \$1,146,459 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, 2004.

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance June 30, 2004</u>
Revenue BANS			
Series 2003A	1.75%	07/24/04	\$ 32,700,000
Series 2004A	2.00%	03/18/05	5,280,000
Series 2004B	2.00%	03/18/05	<u>6,330,000</u>
Total BANS Payable			<u>\$ 44,310,000</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 2004, \$32,700,000 general revenue BANS Series 2003A was issued to refinance the balance of general revenue BANS Series 2002A and for new student housing construction and renovation projects, \$5,280,000 athletic facilities revenue BANS Series 2004A, was issued to refinance a portion of the remaining balance of athletic facilities revenue BANS Series 2003A. \$6,330,000 athletic facilities revenue

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

BANS Series 2004B was issued to refinance a portion of the remaining balance of athletic facilities revenue -

BANS Series 2003B. Short-term debt activity for the year ended June 30, 2004 was as follows:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>
Revenue BANS	\$ <u>28,025,000</u>	\$ <u>44,310,000</u>	\$ <u>28,025,000</u>	\$ <u>44,310,000</u>
Total Short-Term Debt	\$ <u><u>28,025,000</u></u>	\$ <u><u>44,310,000</u></u>	\$ <u><u>28,025,000</u></u>	\$ <u><u>44,310,000</u></u>

Note 10 – Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following at June 30, 2004.

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2004</u>
State Institution Bonds			
Series 1996B	5.0% to 7.0%	04/01/16	\$ 21,910,000
Series 2001B	4.5% to 5.0%	07/01/21	31,840,000
Series 2002E	3.5% to 5.0%	09/01/22	16,570,000
Series 2003I	2.75% to 4.625%	10/01/23	<u>7,000,000</u>
Total State Institution Bonds			<u>77,320,000</u>
Revenue Bonds			
Series 1995	4.75% to 5.0%	05/01/15	5,295,000
Series 1996	5.3% to 6.8%	06/01/26	22,240,000
Series 1997	5.25% to 5.6%	06/01/17	3,435,000
Series 1999A	4.0% to 5.0%	06/01/19	4,125,000
Series 2000A	5.0% to 5.75%	06/01/30	19,935,000
Series 2002	4.0% to 5.5%	05/01/32	20,660,000
Series 2003	2.25% to 5.0%	05/01/23	<u>5,265,000</u>
Total Revenue Bonds			<u>80,955,000</u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>9,340,000</u>
Total Bonds Payable			\$ <u>167,615,000</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.

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Tuition bond fees for the preceding year were \$10,009,672, which results in a legal annual debt service at June 30, 2004 of \$9,008,705. The annual debt service payments for the fiscal year ended June 30, 2004 were \$6,388,855. Tuition revenue pledged in fiscal year 2004 was \$11,462,211 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 2004 were \$5,206,410.

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 2004 were \$708,099 special student fees, \$2,419,158 special admission fee, and \$1,046,059 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, 2004, the University believes it 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 \$7,000,000 for renovation to certain academic buildings and general revenue bonds in the amount of \$5,500,000 for parking facilities.

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, 2003, the interest rate on the bonds was 1.06%.

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

Year ended December 31, 2003:		
2004	\$	420,000
2005		420,000
2006		425,000
2007		425,000
2008		425,000
2209-2013		2,125,000
2014-2018		2,125,000
2019-2023		2,125,000
2024-2025		850,000
	\$	<u>9,340,000</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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					
2005	\$ 3,240,000		\$ 3,545,986		\$ 6,785,986
2006	3,405,000		3,366,067		6,771,067
2007	3,570,000		3,204,936		6,774,936
2008	3,775,000		3,041,768		6,816,768
2009	3,975,000		2,875,299		6,850,299
2010-2014	23,100,000		11,515,265		34,615,265
2015-2019	21,630,000		5,887,614		27,517,614
2020-2024	14,625,000		1,306,036		15,931,036
Total	\$ <u>77,320,000</u>		\$ <u>34,742,971</u>		\$ <u>112,062,971</u>

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Revenue Bonds					
2005	\$ 2,205,000		\$ 4,272,085		\$ 6,477,085
2006	2,315,000		4,158,004		6,473,004
2007	2,445,000		4,037,185		6,482,185
2008	2,565,000		3,918,069		6,483,069
2009	2,685,000		3,797,385		6,482,385
2010-2014	15,675,000		16,840,770		32,515,770
2015-2019	16,590,000		12,587,579		29,177,579
2020-2024	16,785,000		8,185,036		24,970,036
2025-2029	14,485,000		3,542,806		18,027,806
2030-2032	5,205,000		465,763		5,670,763
Total	\$ <u>80,955,000</u>		\$ <u>61,804,682</u>		\$ <u>142,759,682</u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Notes Payable

Notes payable consisted of the following at June 30, 2004:

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%. \$ 57,056

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%. 203,428

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%. 189,858

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%. 875,000

University note payable secured by book binding equipment, dated June, 2003, payable in annual installments of \$24,948, beginning in 2003, matures June 2006, interest rate 3.92%. 47,107

University note payable secured by SGI workstations dated March, 2004, payable in annual installments of \$29,665, matures July, 2006, interest rate of 3.39%. 77,328

Total Notes Payable \$ 1,449,777

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 303,717	\$ 86,191	\$ 389,908
2006	273,441	71,725	345,166
2007	271,593	55,241	326,834
2008	157,242	38,735	195,977
2009	158,655	27,635	186,290
2010-2011	<u>285,129</u>	<u>22,021</u>	<u>307,150</u>
Total	\$ <u><u>1,449,777</u></u>	\$ <u><u>301,548</u></u>	\$ <u><u>1,751,325</u></u>

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Note 11 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	June 30, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
Bonds and Notes Payable and Capital					
Lease Obligations					
State Institution Bonds	\$ 73,190,000	\$ 7,000,000	\$ 2,870,000	\$ 77,320,000	\$ 3,240,000
Revenue Bonds	77,570,000	5,500,000	2,115,000	80,955,000	2,205,000
Blended Component Unit Revenue Bonds	9,760,000	—	420,000	9,340,000	420,000
Subtotal Bonds Payable	<u>160,520,000</u>	<u>12,500,000</u>	<u>5,405,000</u>	<u>167,615,000</u>	<u>5,865,000</u>
Less: Revenue Bonds Unamortized					
Discount	537,119	—	23,110	514,009	23,110
Total Bonds Payable	159,982,881	12,500,000	5,381,890	167,100,991	5,841,890
Notes Payable	1,696,877	84,505	331,605	1,449,777	303,717
Capital Lease Obligations	119,636	—	75,861	43,775	14,412
Total Bonds, Notes and Capital Leases	<u>161,799,394</u>	<u>12,584,505</u>	<u>5,789,356</u>	<u>168,594,543</u>	<u>6,160,019</u>
Other Liabilities					
Accrued Compensated Absences	19,249,255	10,068,847	10,092,173	19,225,929	10,336,493
Retainage Payable	2,081,521	1,164,705	1,514,165	1,732,061	1,603,734
Deferred Revenues	28,244,492	25,993,434	28,244,492	25,993,434	22,221,768
Federal Loan Funds	18,879,818	26,976	97,895	18,808,899	-
Total Other Liabilities	<u>68,455,086</u>	<u>37,253,962</u>	<u>39,948,725</u>	<u>65,760,323</u>	<u>34,161,995</u>
Total Long-Term Liabilities	<u>\$ 230,254,480</u>	<u>\$ 49,838,467</u>	<u>\$ 45,738,081</u>	<u>\$ 234,354,866</u>	<u>\$ 40,322,014</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 – Component Units

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

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, 2004.

The University of South Carolina Educational Foundation operates for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. The University receives from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the University; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$124,364,461 or 57 % of

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208. Attention Russell Meekins.

The University of South Carolina Business Partnership Foundation was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The University receives funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$16,467,070 or 62% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

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

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

The Carolina Piedmont Foundation, Inc., was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate. The University receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the University. The Foundation's capital debt liability is \$16,528,710 which exists to provide capital assets for the University. Complete financial statements for the Foundation can be obtained at Carolina Piedmont Foundation, Inc., 800 University Way, Spartanburg, SC 29303.

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

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

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 2004 follows:

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Funds Received from Component Units

Carolina Piedmont Foundation, Inc.	\$ 111,894
University of South Carolina Development Foundation	573,384
University of South Carolina Business Partnership Foundation	650,427
University of South Carolina Educational Foundation	9,192,466
Greater University of South Carolina Alumni Association	2,733,893
Lancaster County Educational Foundation, Inc.	197,780
University of South Carolina Research Foundation	<u>58,346,354</u>
	\$ <u>71,806,198</u>

The majority of the University of South Carolina Research Foundation revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$12,756,344 due from the University of South Carolina Research Foundation at June 30, 2004.

Funds Paid to Component Units

University of South Carolina Development Foundation	\$ 435,959
University of South Carolina Educational Foundation	61,447
University of South Carolina Business Partnership Foundation	300
Carolina Piedmont Foundation, Inc.	<u>90,394</u>
	\$ <u>588,100</u>

Note 13 – Risk Management

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

The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. State management believes it is more economical to

manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

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

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

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

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.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2004

Note 14—Operating Expenses By Function

Operating expenses by functional classification for the year ended June 30, 2004 are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 200,644,816	\$ 20,226,798	\$ 21,512	\$ 259,930	\$ —	\$ 221,153,056
Research	58,985,505	26,853,123	2,251	367,200	—	86,208,079
Public service	33,299,022	18,042,050	21,475	604,440	—	51,966,987
Academic support	31,245,459	21,286,370	—	32,596	—	52,564,425
Student services	19,199,657	11,897,450	427,291	42,705	—	31,567,103
Institutional support	36,888,347	(4,072,723)	—	35,566	—	32,851,190
Operation and maintenance of plant	21,177,616	19,193,331	15,768,901	6,366	—	56,146,214
Auxiliary Enterprises	24,988,360	34,082,291	4,214,181	2,772,364	—	66,057,196
Scholarships and fellowships	2,216,921	64,918	—	41,090,242	—	43,372,081
Blended Component Unit	21,005,587	13,044,624	—	—	876,394	34,926,605
Depreciation	—	—	—	—	32,732,245	32,732,246
Total Operating Expenses	\$ <u>449,651,290</u>	\$ <u>160,618,232</u>	\$ <u>20,455,611</u>	\$ <u>45,211,409</u>	\$ <u>33,608,639</u>	\$ <u>709,545,181</u>

Note 15—Endowments

The University's endowment funds and type consist of the following as of June 30, 2004.

True Endowments	\$ 11,841,354
Term Endowments	53,651
Quasi-Endowments	<u>22,488,866</u>
Total Endowments	\$ <u>34,383,871</u>

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2004

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

Non-Capital Appropriations

Current year's appropriations:

Original appropriations per Annual Appropriations Act	\$ 181,946,234
Less mid-year reductions	(1,809,462)
From Commission on Higher Education	
Technology Initiative	1,821,885
Academic Endowment Incentive	161,915
Transfer from Department of Revenue - EIA	648,706
Transfer from Department of Health and Environmental Control	<u>173,486</u>
Total non-capital appropriations recorded as current year revenue	<u><u>\$ 182,942,764</u></u>

Capital Improvement Bond Proceeds

Proceeds drawn during the current fiscal year	\$ 4,601,952
Plus: Expenses incurred but not drawn during current fiscal year	422,923
Less: Proceeds drawn but not expended during current fiscal year	<u>(797,756)</u>
Total capital appropriations recorded as current year revenue	<u><u>\$ 4,227,119</u></u>

See accompanying independent auditor's report.

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2004

Information for Statement of Activities

		<u>2004</u>	<u>Comparative Amounts for 2003</u>	<u>Increase/ (Decrease)</u>
University				
Charges for services	\$	483,434,637	439,854,724	43,579,913
Operating grants and contributions		37,741,312	37,869,794	(128,482)
Capital grants and contributions		2,455,883	6,933,043	(4,477,160)
Less: expenses		<u>(683,209,986)</u>	<u>(657,888,128)</u>	<u>(25,321,858)</u>
Net program revenue (expense)		<u>(159,578,154)</u>	<u>(173,230,567)</u>	<u>13,652,413</u>
Additions to permanent endowments		539,000	175,000	364,000
Transfers:				
State appropriations		182,942,764	204,207,133	(21,264,369)
Capital improvement bond proceeds		4,227,119	7,092,688	(2,865,569)
Transfers to/from other state agencies		<u>(1,347,259)</u>	<u>(1,082,026)</u>	<u>(265,233)</u>
Total contributions and transfers		<u>186,361,624</u>	<u>210,392,795</u>	<u>(24,031,171)</u>
Change in net assets		26,783,470	37,162,228	(10,378,758)
Net assets - beginning		<u>615,067,877</u>	<u>577,905,649</u>	<u>37,162,228</u>
Net assets - ending	\$	<u><u>641,851,347</u></u>	<u><u>615,067,877</u></u>	<u><u>26,783,470</u></u>
		<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Trust				
Charges for services	\$	21,061,874	21,074,795	(12,921)
Operating grants and contributions		14,867,573	13,689,806	1,177,767
Capital grants and contributions			(6,550)	6,550
Less: expenses		<u>(35,373,993)</u>	<u>(36,338,613)</u>	<u>964,620</u>
Net program revenue (expense)		<u>555,454</u>	<u>(1,580,562)</u>	<u>2,136,016</u>
Change in net assets		555,454	(1,580,562)	2,136,016
Net assets - beginning		<u>12,169,462</u>	<u>13,750,024</u>	<u>(1,580,562)</u>
Net assets - ending	\$	<u><u>12,724,916</u></u>	<u><u>12,169,462</u></u>	<u><u>555,454</u></u>

See accompanying independent auditor's report.