

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT AUDITOR'S REPORT

October 23, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of the University of South Carolina as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Faculty House of Carolina, Incorporated, a component unit of the University, which represents less than one percent both of the assets and of the revenues of the University's auxiliary enterprises. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. We also did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and the Clinical Faculty Practice Plan, component units of the University, which are presented in a discrete column in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
University of South Carolina
October 23, 1998

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University of South Carolina are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements referred to above include the financial activities of the Faculty House of Carolina, Incorporated, the University of South Carolina School of Medicine Educational Trust, and the Clinical Faculty Practice Plan, component units of the University. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, based on our audit and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina and its discretely presented component units at June 30, 1998, and the changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the activities and cash flows of its discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 23 to the basic financial statements, the University changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and For External Investment Pools.

These financial statements exclude the related entities described in Note 16 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As discussed in Note 23 to the basic financial statements, University management discovered an error in the application of accounting principles regarding fund classification. We audited the adjustments that were applied to restate the University's beginning fund balances. In our opinion, such adjustments are appropriate and have been properly applied.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the University of South Carolina conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Audits of Colleges and Universities Industry Audit Guide* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard - setting body for GAAP for all State governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of these powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) and all of its component units.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Columbia campus, the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees, which is composed of five ex-officio members: the Governor; State Superintendent of Education; Chairman of the Senate Education Committee; Chairman of the House Education and Public Works Committee; President of the Greater University of South Carolina Alumni Association; 16 members elected by the General Assembly; and one at-large member appointed by the Governor. The Board is the governing body of the University and administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Component Units Blended in Primary Entity - In Discrete Column and Separate Financial Statement Presentation

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

The University of South Carolina School of Medicine Educational Trust (the "Trust") and Clinical Faculty Practice Plan (the "Practice Plan") are component units of the University which are blended in the primary entity in a discrete column on the balance sheet. Separate statements of activities and cash flows are presented for these component units. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine in order to augment and aid

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units Blended in Primary Entity - In Discrete Column and Separate Financial Statement Presentation (Continued)

education, service, research and development in the health sciences and in the fields of preventive and curative medicine. In conjunction with these functions, the Trust oversees the Practice Plan which exists to provide high quality health care in conjunction with enhanced teaching opportunities. The School of Medicine has reserved the right to terminate the Practice Plan at any time upon the vote of two-thirds of the participating clinical faculty members and upon the approval of the Dean of the School of Medicine and the University's Board of Trustees. However, in conjunction with the issuance of certain revenue bonds (see Note 4) the University has agreed not to permit the termination of the Practice Plan at any time prior to full repayment, including interest, of such bonds.

The Trust is considered a component unit because the University has appointment authority of its board. The Practice Plan is considered a component unit because it is governed by the board of directors of the Trust. Due to the controlled governance by the University and primary purposes of the Trust and Practice Plan to provide services almost entirely to the University, they must be presented as blended component units in accordance with GASB Statement 14 *The Financial Reporting Entity* guidance. The transactions between the University and these component units will not agree in the accompanying financial statements because they have different fiscal year-ends. All activity reported for the component units including the information shown in the Notes to the Financial Statements is as of and for the year ended December 31, 1997. Complete financial statements of the Trust and the Practice Plan can be obtained at the administrative office of the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

The Faculty House of Carolina, Incorporated (the "Faculty House") a not-for-profit corporation, is a component unit of the University which is blended in the primary entity as an auxiliary enterprise in the unrestricted current funds group. The Faculty House operates on the Columbia campus for the benefit of the University as a private dining and social activities club for members.

The Faculty House is considered a component unit because the University has appointment authority of its board and is presented as a blended component unit. All activity reported for the Faculty House is as of and for the year ended August 31, 1997. Complete financial statements of the Faculty House can be obtained at the administrative office of the Faculty House of Carolina, Inc., Post Office Box 11580, Columbia, South Carolina, 29211.

Presentation of Component Units

Some component units, despite being legally separate, are so intertwined with the University that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Component Units (Continued)

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and financial statements are labeled "component units."

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant and equipment assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for academic sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant; agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting - Discretely Presented Component Units

The University's discretely presented component units conduct business-like activities similar to those found in the private sector. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of operating results, financial position, and cash flows.

The accounting policies of these entities conform to GAAP applicable to governmental not-for-profit activities as prescribed by GASB. Effective for fiscal year ended December 31, 1996, these component units implemented GASB Statement 29 *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. That statement provides that governmental entities that heretofore applied the non-for-profit accounting and reporting principles prescribed in the AICPA's Statement of Position (SOP) 78-10 have two options regarding their reporting model, the governmental model or the AICPA not-for-profit model. These University component units are considered governmental in nature and therefore subject to the governmental accounting model.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting - Discretely Presented Component Units (Continued)

The accounting policies of these entities conform to GAAP applicable to governmental proprietary activities as prescribed by GASB. The University's discretely presented component units, as governmental entities that heretofore have applied not-for-profit accounting principles under the guidance of the Financial Accounting Standards Board (FASB), apply all accounting and financial reporting principles contained in SOP 78-10 as modified by applicable GASB and FASB pronouncements. Since the University's discretely presented component units are self-supporting, they have adopted paragraph 7 of GASB Statement 20 pertaining to enterprise funds and are applying all FASB statements and interpretations issued after November 30, 1989, except those that conflict or contradict with GASB pronouncements. Accordingly, for the fiscal year ended December 31, 1996, the component units adopted FASB 115, *Accounting for Certain Investments in Debt and Equity Securities*. The adoption of FASB 115 has resulted in adjusting the carrying value of investments to their fair value. The effect of the adjustment is an increase to investment carrying value with a corresponding increase in fund balance which is classified in a separate component titled "unrealized investment gains/(losses), net". There was no effect on net revenues.

These entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or unless the endowment agreement requires the income to be added to the corpus.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year.

Auxiliary enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, housing, bookstores, food services, student health services, parking operations, coliseum operations, and the Faculty House. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$16,332,846 at June 30, 1998.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Some endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

board. The term "principal" is construed to include the fair value of an endowment and subsequent additions and realized and unrealized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or debt service related to plant assets are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness, bonds payable related bond discounts, and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Fund Accounting - Discretely Presented Component Units

The University's discretely presented component units utilize the governmental model of fund accounting for not-for-profit organizations as provided by SOP 78-10. The funds of the Trust and Practice Plan are unrestricted, comprised of four designated groups. The four groups relate to support of the medical school and clinical facilities, operation of clinical facilities, operation of building and equipment of the Trust and Practice Plan, and educational trust general operations.

Use of Estimates

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

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental and private grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land improvements and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

All library books, periodicals, microfilms, and other library materials are recorded at cost or fair market value at the date of donation. Library books deletions are written off at year end at average cost based on the actual number of volumes deleted. Equipment with a unit value in excess of \$5,000 and having an expected life in excess of two years have been capitalized. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts and in the investment in plant funds subgroup.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup.

Capitalized Interest

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 the investment in plant subgroup include such interest costs.

Bond Discounts and Amortization:

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as an element of interest on indebtedness over the lives of the bonds using the straight-line method. Amortization of deferred charges is reported as an addition to interest and other charges on indebtedness.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned. Unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. In retirement of indebtedness plant funds subgroup, deferred revenues consist of seat assessment fees related to receipts collected in advance for athletic events.

Student Deposits

Student deposits represent security deposits for possible room damage and key loss and other 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.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational and Other Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from charges for continuing education programs. Other activities revenues in this account include copy rental, University Press, and computer center activities.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 14.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage ownership in the pool.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those 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, GAAP require the potential liability to be calculated annually for financial statement purposes. The University has no rebatable arbitrage liability at June 30, 1998.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Interfund transactions between discretely presented component units have been eliminated. However, transfers between discretely presented component units are considered operational in nature and are included in excess of revenues over expenditures.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except material expenditure reimbursements and certain other intraentity transactions and balances between the University and component units blended in the University's funds.

Discretely Presented Component Unit Accounting Policies

Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosure for such entities are separately identified within each applicable note.

Patient Charges and Accounts Receivable

The Practice Plan, through their affiliation with a local hospital which serves as a regional medical and trauma center, serves a number of indigent patients who are not covered under any type of insurance. Certain gross charges are subject to adjustment by third party reimbursers and a percentage of patients do not meet their obligation. Therefore, Practice Plan patient accounts receivable are recorded net of estimated indigent care and contractual adjustments as well as an allowance for doubtful accounts

Interfund Support

In accordance with the terms of the Practice Plan agreement, a certain percentage of gross Practice Plan professional revenues is contributed to the Dean's Academic Enhancement subfund of the Trust and, effective January 1, 1997, to the Departmental Operations subfund. The percentages, currently 7.0 percent and 1.0 percent, are authorized by the Board of Trustees of the University. The contributions in 1997 were \$1,630,278 and \$236,483 respectively. In addition, operating units of the Trust and Practice Plan, which utilize building space, transfer funds in lieu of rent payments. Additionally, net cash-basis revenues are contributed to the Trust by the Practice Plan annually. The transfer for support in 1997 was \$2,317,852. To the extent that total amounts due from the Practice Plan to the Trust have not been deposited by the Trust as of December 31, such amounts are reflected in the combined balance sheet account "due between component units".

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Building and Equipment

The Trust and the Practice Plan assets are recorded at historical cost. Depreciation is recognized on these assets over their estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	40
Leasehold improvements	Straight-line	31.5-39
Furniture and office equipment	Double-declining balance	5-7
Medical equipment	Double-declining balance	7

Depreciation recognized in the plant funds of the Trust and the Practice Plan during the current year totals \$878,667.

Amortization

Loan costs related to the Trust's acquisition of two buildings are being amortized using the straight-line method over the lives of the respective loans as follows:

Medical Park II	5 years
Medical Park IV	20 years

Amortization recognized in the current year totals \$1,403. The unamortized balance at December 31, 1997, is \$19,637.

Compensated Absences

The Trust and the Practice Plan reimburse the University of South Carolina for the salaries and fringe benefits of non-faculty personnel. (For the prior year, Richland Memorial Hospital was reimbursed.) Additionally, funds are contributed to the University of South Carolina in support of the salaries of certain faculty personnel. These organizations have various policies concerning the accrual of vested vacation compensation. The liability for accrued compensated absences as of December 31, 1997 reflects the value of such compensation earned but not yet utilized, including fringe benefits.

Income Taxes

The Trust is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a). A tax return is filed to report the operations of the Trust and the departments of the Practice Plan.

Cash and Cash Equivalents

The amounts shown for the Trust and the Practice Plan in the cash flows statement as "cash and cash equivalents" represent cash on deposit in banks, money market funds, and short-term certificates of deposit (maturities of three months or less).

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of long-term (maturities of greater than three months) certificates of deposit, U.S. Treasury Bills, U.S. Treasury Notes and common stock. Investments in marketable debt and equity securities are considered to be available for sale, therefore, they are carried at fair value. Unrealized gains are reflected as a separate component of fund balance.

Other Professional Income

Other professional income consists of revenue earned by the participants in the Practice Plan for the provision of medically-related services other than Practice Plan patient care. The primary sources of this revenue are contractual arrangements with eleemosynary organizations.

Other Income

Other income consists primarily of revenue received by participating clinics in the form of support to defray operating expenses.

NOTE 2 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 18KA through KH of Part IA of the 1997-98 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1998:

Original Appropriation	\$183,597,444
State Budget and Control Board Allocations:	
Employee Pay Plan Increases (Proviso 17C.13.)	2,630,521
Employer Contributions Related to Pay Plan	414,044
Rent Increase for State-Owned Office Space	1,979
Appropriation Allocations from the State	
Commission on Higher Education:	
From 1997 Surplus State General Fund Revenues for	
Additional Formula Funding (Part III of the 1998 Act)	2,835,545
From Capital Reserve Fund Appropriations for	
Additional Formula Funding	6,524,438
Performance Funding	1,421,223
Performance Improvement Award	1,500
Palmetto Fellows Scholarships	1,629,266
Need-Based Student Grants	3,333,604
Access and Equity Desegregation Funding (Proviso 18A.7.)	89,394
Supplemental Appropriations from 1997 Surplus	
State Revenues (From Part III of the 1998 Act):	
Institute of Public Affairs	500,000
Small Business Development Center	191,398
Capital Reserve Fund Appropriations for:	
Law Library	400,000
Arena	2,500,000
Penn Center	100,000
Transfers from the Department of Revenue for Education	
Improvement Act (Part IA, Section 19X.K and	
Provisio 19A.37. of the 1998 Act):	
Writing Improvement Network	318,240
S.C. Geographic Alliance	40,000
Transfer from the Department of Commerce for the South Carolina	
Institute of Archaeology and Anthropology	109,000
State Appropriations Revenue	\$206,637,596
State appropriations revenue is reported in the following funds:	
Unrestricted Current Funds	\$198,707,486
Restricted Current Funds	5,430,110
Unexpended Plant Funds	2,500,000
	\$206,637,596

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The University recognized the following revenues from the State Commission on Higher Education as state grants and contracts revenue in the restricted current funds group.

Centers for Excellence Program	\$422,645
Higher Education Awareness Program	8,115

In addition, the University received from supplemental appropriations provided in Part III of the 1998 Act from the State Commission on Higher Education \$2,250,000 for the South Carolina Experimental Program to Stimulate Competitive Research (EPSCOR) Program and \$600,000 for the South Carolina Alliance for Minority Participation Program (SCAMP). The University as fiscal agent accounted for the programs through its agency funds. The University recognized revenues of \$1,142,799 from the EPSCOR Program and \$20,315 from the SCAMP Program which are reported as state grants and contracts revenue in the restricted current funds group.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In prior years, the State authorized funds for improvements and expansion of various facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 1998, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1998</u>	<u>Balance Authorized June 30, 1998</u>
Act 638 of 1988	\$23,302,000	\$23,252,535	\$ 49,465	\$ -
Act 522 of 1992	39,560,130	35,690,303	1,244,766	2,625,061
Asbestos Abatement (1988)	1,950,000	1,938,723	11,277	-
Act 111 of 1997	<u>31,541,065</u>	<u>-</u>	<u>3,354,943</u>	<u>28,186,122</u>
Total	<u>\$96,353,195</u>	<u>\$60,881,561</u>	<u>\$4,660,451</u>	<u>\$30,811,183</u>

The entire balance is reported in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE

Bonds Payable

At June 30, 1998, bonds payable consisted of the following:

	Interest <u>Rates</u>	Maturity <u>Dates</u>	June 30, 1998 <u>Balance</u>	Due Within <u>One Year</u>
<u>University</u>				
State Institution Bonds				
Series 1993B	4.1% to 4.65%	04/01/03	\$ 8,275,000	\$1,520,000
Series 1996B	5.0% to 7.00%	04/01/16	28,435,000	930,000
Revenue Bonds				
Series 1996	5.3% to 6.8%	06/01/26	24,685,000	335,000
Series 1997	5.2% to 5.6%	06/01/17	4,370,000	135,000
Plant Improvement Bonds				
2nd Series 1968	3.0%	12/01/98	68,000	68,000
Series 1971	5.4%	12/01/00	270,000	90,000
Parking Facilities Revenue				
Bonds Series 1995	4.75% to 5.00%	05/01/15	<u>8,550,000</u>	<u>615,000</u>
			<u>74,653,000</u>	<u>3,693,000</u>
<u>Component Unit</u>				
Revenue Bonds	6.2% to 8.2%	12/01/03	<u>920,000</u>	<u>40,000</u>
Total			<u>\$75,573,000</u>	<u>\$3,733,000</u>

The University receives loan subsidies from the U.S. Department of Education designated for revenue bonds and plant improvement bonds to be applied as specified by the United States Department of Education. The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition paid to the University is restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. Revenue received for dormitory and married student housing, parking facilities and loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on revenue and parking facilities revenue bonds. Principal and interest on plant improvement bonds are paid from revenue derived from a special plant improvement fee charged to students and from loan subsidies received.

The University purchased a bond insurance policy for the Parking Facilities Revenue Bonds - Series 1995 in lieu of establishing a debt service reserve fund. The insurance policy guarantees payment of the debt service reserve on behalf of the University for up to \$966,690 to the final maturity of the bonds. The University also purchased a bond insurance policy for each series of auxiliaries revenue bonds which guarantees 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.

The bond documents outline certain covenant terms to secure the bonds. For the state institution bonds, the University must maintain its tuition fees at amounts necessary to meet annual debt service requirements. For revenue bonds, the University must generate net revenues available for debt service of not less than 100 percent of debt service payments due in each bond year. In addition, the University must establish and maintain debt service funds with the South Carolina State Treasurer for payment of principal and interest for all bonds.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

Also for the plant improvement bonds, the University has debt service reserve requirements and balances on deposit of \$171,170 and \$191,408 at June 30, 1998.

Certain of the University's bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption prices (expressed as a percentage of the principal redeemed) are as follows:

<u>Bond</u>	<u>Range</u>
State Institution Bonds:	
Series 1996B	2.0% from 04/01/06 through 03/31/07 1.0% from 04/01/07 through 03/31/08 Par from 04/01/08 through maturity
Revenue Bonds	
Series 1996	1.0% from 06/01/06 through 05/31/07 Par from 06/01/07 through maturity
Series 1997	1.0% from 06/01/07 through 05/31/08 Par from 06/01/08 through maturity
Plant Improvement Bonds:	
2 nd Series 1968	Par from 1998 through maturity 1998
Series 1971	1.0% from 1998 through maturity 2000
Parking Facilities Revenue Bonds -	
Series 1995	2.0% from 05/01/05 through 04/30/06 1.0% from 05/01/06 through 04/30/07 Par from 05/01/07 through maturity

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue and plant improvement bond obligations as of June 30, 1998, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 1,243,000	\$ 2,111,212	\$ 3,354,212
2000	1,245,000	2,046,253	3,291,253
2001	1,280,000	1,978,322	3,258,322
2002	1,240,000	1,910,623	3,150,623
2003	955,000	1,842,312	2,797,312
2004 through 2026	<u>31,980,000</u>	<u>22,377,658</u>	<u>54,357,658</u>
Total Obligations	<u>\$37,943,000</u>	<u>\$32,266,380</u>	<u>\$70,209,380</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

Amounts including interest required to complete payment of the state institution bonds as of June 30, 1998 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 2,450,000	\$ 1,911,366	\$ 4,361,366
2000	2,570,000	1,783,947	4,353,947
2001	2,705,000	1,646,707	4,351,707
2002	2,840,000	1,521,356	4,361,356
2003	2,985,000	1,365,681	4,350,681
2004 through 2016	<u>23,160,000</u>	<u>9,093,050</u>	<u>32,253,050</u>
Total Obligations	<u>\$36,710,000</u>	<u>\$17,322,107</u>	<u>\$54,032,107</u>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness subgroup as student tuition and fees. Mandatory transfers from auxiliary enterprises revenue for debt retirement of revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

In prior years, the University defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result because the bonds are considered defeased, the liability for the defeased bonds has been removed from the University's investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 1998, \$7,745,000 (\$1,105,000 attributable to Coastal Carolina University) for state institution bonds and \$1,375,000 of parking facilities revenue bonds are considered defeased.

Bond Anticipation Notes

The University uses bond anticipation notes to temporarily finance capital additions and intends to refinance these obligations over a longer period of time in the future through permanent financing. Usually within a year, a long-term bond is issued to repay the bond anticipation notes. The funds to retire the outstanding notes will be obtained through certain stadium seat assessment fees and student fees, as well as additional temporary refinancing and permanent financing. The seat assessment fees are recorded directly in the retirement of indebtedness fund subgroup of the plant funds group.

Of the \$17,550,000 in bond anticipation notes outstanding at June 30, 1997, \$16,075,000 was refinanced. Athletic facilities revenue bond anticipation notes issued in February 1998 in the amount of \$16,075,000 and outstanding at June 30, 1998, are due in February 1999 and bear a net interest rate of 3.64%.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Summary of Current Year Expenditures

The University reported principal payments and interest expenditures related to bonds and bond anticipation notes for the year ended June 30, 1998, as follows:

	<u>Principal Payments</u>	<u>Interest Expenditures</u>
Bonds Payable	\$3,535,000	\$4,179,997
Bond Anticipation Notes	<u>1,475,000</u>	<u>657,074</u>
	<u>\$5,010,000</u>	<u>\$4,837,071</u>

Interest and other charges on indebtedness expenditures for the current year include \$10,580 for bond discount amortization. The University capitalized \$101,772 of interest expenditures as part of construction in progress.

Debt Attributable to Component Units

Debt attributable to the component units is as follows:

Equipment notes

	<u>Balance Beginning of Year</u>	<u>New Debt Issued</u>	<u>Debt Repaid</u>	<u>Balance End of Year</u>
Practice Plan - Department of Ophthalmology: Installment loan agreement to be repaid over twelve months, commencing October, 1996. Secured by medical equipment.	\$10,963	\$ -	\$(10,963)	\$ -

There was no interest expense on these notes for the year ended December 31, 1997.

On March 5, 1992, the Trust acquired a building known as Medical Park II. The building is currently utilized for the operations of seven of the Departments participating in the Practice Plan, as well as outside entities.

In conjunction with the acquisition, the Trust authorized and issued a series of notes known as the "University of South Carolina School of Medicine Educational Trust Revenue Notes (Medical Park II Office Building Project) Series 1992". These notes consist of the following:

UNIVERSITY OF SOUTH CAROLINA

Notes to Financial Statements

June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

	Balance Beginning <u>of Year</u>	Debt <u>Repaid</u>	Balance End of <u>Year</u>
(R-1) A tax-exempt note covering that portion of the purchase price which relates to the rental of space to Practice Plan. Original principal balance \$3,990,000. Payable in monthly installments of \$27,398, including interest at 7.175%.	\$3,717,951	\$ (70,006)	\$3,647,945
(R-2) A taxable refinancing note covering the difference between the balance of the prior loan on the property and the principal amount of the tax exempt note. Original principal balance \$669,958. Payable in monthly installments of \$6,018 including interest at 10.15%.	643,747	(7,199)	636,548
(R-3) A variable rate note covering the difference between the purchase price and the first two notes. Original principal balance \$1,040,042. Payable in monthly installments of \$3,095 plus interest at floating prime.	<u>863,607</u>	<u>(37,151)</u>	<u>826,456</u>
Total	<u>\$5,225,305</u>	<u>\$(114,356)</u>	<u>\$5,110,949</u>

Interest expense on these notes was \$400,156 for the year ended December 31, 1997.

The notes have an original maturity date of December 1, 1999, at which time they are expected to be refinanced. The notes are subject to redemption if various requirements are met.

Principal and interest payments on these notes up to the original maturity date, amount to the following:

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 120,289	\$ 400,010	\$ 520,299
1999 (refinancing expected)	<u>4,990,660</u>	<u>389,944</u>	<u>5,380,604</u>
	<u>\$5,110,949</u>	<u>\$ 789,954</u>	<u>\$5,900,903</u>

As security for the revenue notes, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of noteholders. These agreements grant to noteholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

On December 1, 1991, the Trust acquired a building known as Medical Park IV. The building is currently utilized by two of the departments which participate in the Practice Plan.

In conjunction with this acquisition, the Trust issued revenue bonds known as "University of South Carolina School of Medicine Educational Trust Revenue Bonds (Medical Park IV Medical Office Building Project) Series 1991".

<u>Principal</u> <u>Due Date</u> <u>December 1</u>	<u>Amount</u> <u>Annually</u>	<u>Interest</u> <u>Rate</u>	<u>Due Date</u> <u>December 1</u>	<u>Principal</u> <u>Amount</u> <u>Annually</u>	<u>Interest</u> <u>Rate</u>
1998	40,000	7.5%	2005	\$ 65,000	6.9%
1999	45,000	6.2	2006	70,000	6.9
2000	50,000	6.4	2007	75,000	7.0
2001	50,000	6.6	2008	80,000	7.0
2002	55,000	6.7	2009	85,000	7.0
2003	60,000	6.8	2010	90,000	7.0
2004	60,000	6.9	2011	95,000	7.0
Total Revenue Bonds Issued				1,125,000	
Principal Payments Made Since Inception				<u>(205,000)</u>	
Revenue Bonds Outstanding				920,000	
Portion Due Currently				<u>(40,000)</u>	
Long-term Portion				<u>\$ 880,000</u>	

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

Principal paid and interest expense on the bonds payable were \$40,000 and \$66,610 for the year ended December 31, 1997.

Principal and interest payments for the five years subsequent to December 31, 1997, and thereafter, amount to the following.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 40,000	\$ 63,330	\$ 103,330
1999	45,000	60,330	105,330
2000	50,000	57,540	107,540
2001	50,000	54,340	104,340
2002	55,000	51,040	106,040
Thereafter	<u>680,000</u>	<u>257,165</u>	<u>937,165</u>
Total	<u>\$920,000</u>	<u>\$543,745</u>	<u>\$1,463,745</u>

Bonds maturing on or before December 1, 2001, are not subject to early redemption. Bonds maturing subsequent to that date are subject to early redemption at a specified premium at the option of the Trust upon 45 days of prior written notice.

These bonds are limited obligations of the Trust, with debt service to be paid solely from receipts derived from leasing the project.

As security for the bonds, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of bondholders. These agreements grant to bondholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

NOTE 5 - LEASE OBLIGATIONS AND INSTALLMENT NOTES PAYABLE

The University is obligated under various operating leases for the use of real property and equipment. In addition, the University is obligated under an installment purchase agreement for the acquisition of the Matthew J. Bruccoli Collection of F. Scott Fitzgerald.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 5 - LEASE OBLIGATIONS AND INSTALLMENT NOTES PAYABLE (CONTINUED)

Future commitments for the installment purchase agreement and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1998, were as follows:

<u>Year Ending June 30</u>	<u>Installment Purchase</u> <u>Matthew J. Bruccoli Collection</u>	<u>Operating Leases</u>	
		<u>Real Property</u>	<u>Equipment</u>
1999	\$ 60,000	\$ 858,433	\$ 95,702
2000	60,000	405,384	72,825
2001	60,000	107,535	60,237
2002	60,000	56,750	-
2003	60,000	56,750	-
2004 and after	<u>120,000</u>	<u>311,750</u>	<u>-</u>
Total Minimum Payments	420,000	<u>\$1,796,602</u>	<u>\$228,764</u>
Less: Interest	<u>(74,822)</u>		
Principal Outstanding/Present			
Value of Net Minimum Payments	<u>\$345,178</u>		

Installment Notes Payable

In 1995, the University entered into an installment agreement to purchase a rare book collection (Matthew J. Bruccoli Collection of F. Scott Fitzgerald) for \$800,000 without interest. The installment note is payable in annual installments of \$60,000 through fiscal year 2005. Payments totaling \$60,000 in 1998 were made by the University (\$36,105) and the University of South Carolina Educational Foundation (\$23,895), a related party on behalf of the University. Interest expense has been imputed at 5.16%. The note is secured by the rare book collection. Expenditures for principal and interest for fiscal year 1998 were \$40,119 and \$28,787. These expenditures and the \$23,895 in private gifts funding from the Foundation were recorded in the retirement of indebtedness subgroup. The value of the \$420,000 liability (net of imputed interest) at June 30, 1998, was \$345,178.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 1998 through 2031. 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 1998 to 2031 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. The University entered into an agreement to lease real estate (9.3) acres from Spartanburg County (County) on May 20, 1997. The lease was contingent upon the University's purchase of an apartment complex located on the County property. Under the terms of the agreement the University will pay the County one dollar per year through June 1, 2031 for the use of the land.

Total operating lease expenditures in 1998 were \$871,855 for other real property and \$108,382 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 5 - LEASE OBLIGATIONS AND INSTALLMENT NOTES PAYABLE (CONTINUED)

Obligations Attributable to Component Units

The Trust acquired buildings known as Medical Park IV and Medical Park II in December 1991 and March 1992. Rent revenue is received from non-Practice Plan entities who occupy space in the two buildings. Additionally, the various operating units of the Trust and Practice Plan which utilize the building space transfer funds in lieu of rent. Rents are utilized by the Trust for debt service and operating expenses.

The Trust operates the two buildings for the benefit of the University's School of Medicine in the training of Clinical Practice Department students. The acquisitions were financed by issuance of revenue bonds and notes totaling \$6,825,000. The University owns title to the land and has a ground lease with the Trust which provides for annual rents ranging from \$58,600 to \$77,996 through 2011 and \$49,193 to \$59,523 from 2012 to 2025.

The land upon which the Medical Park II and Medical Park IV buildings are located is the property of the University of South Carolina School of Medicine and is being leased to the Trust as follows:

	<u>Medical Park II</u>	<u>Medical Park IV</u>	<u>Totals</u>
Term of Lease	33 years	20 years	
Termination Date	February 1, 2025	December 1, 2011	
Land Lease Payment			
1998	\$ 36,960	\$ 27,500	\$ 64,460
1999	36,960	27,500	64,460
2000	36,960	27,500	64,460
2001	36,960	27,500	64,460
2002	36,960	27,500	64,460
Thereafter	<u>1,085,019</u>	<u>290,125</u>	<u>1,375,144</u>
Total	<u>\$1,269,819</u>	<u>\$427,625</u>	<u>\$1,697,444</u>

Rent expense of \$61,100 was paid by the Trust to the University. The University included the rental income in unrestricted current funds.

The bond and note resolutions require the Trust to convey ownership of each building to the University at such time as all acquisition indebtedness has been retired.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 5 - LEASE OBLIGATIONS AND INSTALLMENT NOTES PAYABLE (CONTINUED)

Obligations Attributable to Component Units (Continued)

The Trust Departmental Subfund as well as the Departments of Orthopedics, Obstetrics and Gynecology, Surgery, and Internal Medicine have acquired certain office equipment under capital lease arrangements as follows:

	<u>Orthopedics</u>	Obstetrics and <u>Gynecology</u>	<u>Surgery</u>	Internal <u>Medicine</u>	<u>Trust</u>	<u>Totals</u>
Initial Value of Leases	\$ -	\$321,022	\$66,289	\$216,184	\$91,527	\$695,022
Prior Amortization	-	(251,447)	(46,102)	(53,768)	-	(351,317)
Unamortized Balance at December 31, 1996	-	69,575	20,187	162,416	91,527	343,705
Additional Debt Acquired	25,740	21,519	-	-	12,426	59,685
Current Amortization	(1,123)	(33,280)	(4,042)	(35,364)	(25,153)	(98,962)
Unamortized Balance at December 31, 1997	<u>\$24,617</u>	<u>\$ 57,814</u>	<u>\$16,145</u>	<u>\$127,052</u>	<u>\$78,800</u>	<u>\$304,428</u>

Interest expense for capital leases was \$22,336 for the year ended December 31, 1997.

The following is a summary of minimum lease payments for the equipment:

<u>Year Ending December 31</u>	Minimum Lease Payments	Less Imputed Interest	<u>Balance</u>
1998	\$133,467	\$(21,218)	\$112,249
1999	102,431	(13,244)	89,187
2000	86,353	(5,468)	80,885
2001	15,945	(1,030)	14,915
2002	<u>7,407</u>	<u>(215)</u>	<u>7,192</u>
Total	<u>\$345,603</u>	<u>\$(41,175)</u>	<u>\$304,428</u>

NOTE 6 - NONMANDATORY TRANSFERS

Tuition, fees, and revenues pledged for debt service and required to be deposited in the retirement of indebtedness funds subgroup remain in that subgroup until they are expended for debt service requirements or transferred by the State Treasurer. Such funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 6 - NONMANDATORY TRANSFERS (CONTINUED)

For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers available funds into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 1998, the University transferred \$2,723,560 for that purpose which is reported as a nonmandatory transfer. The University returned \$120,094 unexpended funds from the unexpended plant funds subgroup to the retirement of indebtedness funds subgroup. In fiscal year 1998, total net transfers between the unexpended plant funds subgroup and retirement of indebtedness funds subgroup is \$2,603,466. The unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. During the current year, the University transferred \$1,617,670 within that subgroup from the general capital improvements funding account to finance specific capital projects. Unexpended balances in specific project accounts are reported in restricted fund balances.

For revenue bonds issued by the University, transfer of available funds in excess of required minimum balances is requested by the University to the State Treasurer. The University did not transfer any funds in fiscal year 1998.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 6 - NONMANDATORY TRANSFERS (CONTINUED)

The unexpended balances in the specific project accounts of the unexpended plant funds subgroup are reported in restricted fund balance. In addition, during fiscal year 1998, the University made the following transfers:

<u>From</u>	<u>FUND</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current		Quasi-Endowment	\$1,555,750	Transfer of funds to quasi-endowment as authorized by Board.
Unrestricted Current		Unexpended Plant	6,844,456	Financing of construction projects.
Unrestricted Current		Retirement of Indebtedness Plant	579,325	Funding of debt service.
Unrestricted Current		Investment in Plant	75,000	Fund repayment of advance between funds.
Restricted Current		Unrestricted Current	264,778	Residual funds from fixed price contracts.
Restricted Current		Unexpended Plant	220,801	Financing of construction projects.
Unexpended Plant		Unrestricted Current	29,491	Return of unexpended plant funds for operations and maintenance.
Unexpended Plant		Retirement of Indebtedness	120,094	Return of unexpended plant funds for funding of debt service.
Retirement of Indebtedness		Unexpended Plant	2,723,560	Financing for capital improvements.
Loan		Unrestricted Current	12,388	Return of institutional share of matching funds in discontinued loan programs.
Loan		Restricted Current	34,152	Perkins Loan funds to FSEOG.

Also see Note 19 for transfers between component units.

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NOTE 7 - PENSION PLANS

University Employees

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.

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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ending June 30, 1998, 1997, and 1996 were \$13,940,000, \$13,221,000, and \$12,665,000, 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 \$277,000 in the current fiscal year at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share (\$29,800) of pension costs for employees on educational leave with employees paying \$23,700.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. 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

UNIVERSITY OF SOUTH CAROLINA
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NOTE 7 - PENSION PLANS (CONTINUED)

University Employees (Continued)

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.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1998, 1997, and 1996 were \$229,000, \$219,000, and \$215,000, 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 \$4,450 and accidental death insurance contributions of \$4,450 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

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 retirement plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 7 - PENSION PLANS (CONTINUED)

University Employees (Continued)

The Systems do not make separate measurements of assets and pension obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

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 four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.916 percent from the employer in fiscal year 1998.

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 \$3,174,000 excluding the surcharge from the University as employer and \$2,523,000 from its employees as plan members. In addition, the University paid \$63,100 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers.

Component Units

Effective October 1, 1992, the Trust established a defined contribution plan covering all participants in the Practice Plan. The contribution rate is determined by the Trust and was set at 10 percent of eligible compensation effective January 1, 1993, the date of initial funding. After completion of three years of service, 100 percent of benefits vest. Contributions for the year ended December 31, 1997, of \$711,225 are included as a component of faculty compensation.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 7 - PENSION PLANS (CONTINUED)

Component Units (Continued)

The Faculty House has a defined contribution plan covering substantially all full-time employees. Under the terms of the plan, employees are permitted to contribute up to 10 percent of their annual salaries. The employer may contribute up to six percent of participants' salaries with approval from the board of directors. Employees are immediately vested 100 percent in voluntary contributions made by the employees. The Faculty House's policy is to fund benefit costs accrued. For the year ended August 31, 1997, provisions for pension benefits of \$3,720 were charged to operations.

NOTE 8 - 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 16,500 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the approximate amount of \$11,620,000 for the year ended June 30, 1998. As discussed in Note 7, the University paid approximately \$4,386,000 applicable to the 1.916% 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 retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

UNIVERSITY OF SOUTH CAROLINA
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NOTE 9 - 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 accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. 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.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 10- INVENTORIES

Inventories are valued at cost except for bookstores and University Press inventories which are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 1998:

<u>Category</u>	<u>Method</u>	
Bookstores	First-in, first-out	\$ 970,151
Maintenance	Last-in, first-out	277,443
Central Supply	First-in, first-out	80,042
University Press	First-in, first-out	441,899
Others	Various	<u>314,727</u>
		<u>\$2,084,262</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 11 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account for a multi-campus system which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund subgroup and by campus. At June 30, 1998, restricted current funds owed unrestricted current funds \$6,981,387.

Component Units

The amount due to the operations fund of the Practice Plan from the Trust support fund of \$14,089 represents an overpayment of retirement contributions for calendar year 1997. An equal amount is reported by the Trust support fund as a prepaid expense. As of December 31, 1997, the amount due to the Trust support fund from the Practice Plan operations fund was \$2,189,961.

In the separately issued component unit financial statements and the condensed component unit statements presented in Note 19, such amounts are separately reported on the balance sheet in asset and liability accounts which identify the individual source and recipient funds of each component unit. On the University's balance sheet, these balances are eliminated.

Within the Trust's funds, the \$31,496 due to the support fund for the Dean's academic enhancement fund from the building and equipment fund consists of the funds advanced by the Dean's fund toward the acquisition of certain property. Pursuant to various agreements entered into in connection with the issuance of certain revenue bonds and notes, project revenues will be used to reimburse the Dean's fund after operating expenses are paid and debt service and contingencies are provided for.

NOTE 12 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLE

The University has the following significant accounts receivable for which the detail is not displayed on the balance sheet.

Unrestricted Current Funds

Educational and General	
Student and Sponsor Receivables	\$2,563,783
University Press	321,892
Computer Services	20,285
Employee Travel Advances	36,034
Other	136,644
Auxiliary Enterprises	
Housing	432,220
Bookstores	291,211
Parking	503,964
Athletics	716,867
Faculty House	148,451
Other	<u>232,162</u>
	<u>\$5,403,513</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 12 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLE (CONTINUED)

<u>Plant Funds</u>	
Ligatation Settlement	\$ <u>900,000</u>
 <u>Agency Funds</u>	
Small Business Development Center	\$ 402,227
SCAMP/EPSCOR	157,124
Other	<u>62,833</u>
	<u>\$ 622,244</u>

With minor exceptions, loan losses for student loan receivables and various accounts receivable are established based upon losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1998, the allowances for student loans receivable in loans funds and accounts receivable in unrestricted current funds are valued at \$889,128 and \$488,359 respectively.

Component Units

The clinical entities of the Practice Plan, through their affiliation with a hospital which serves as a regional medical and trauma center, serve a number of indigent patients who are not covered under any type of insurance. Additionally, certain gross charges are subject to adjustment by third party reimbursers, and a percentage of patients do not meet their obligations. Therefore, gross patient charges are adjusted to their estimated realizable value through valuation allowances.

For the year ended December 31, 1997, the components of patient accounts receivable are as follows:

Gross Patient Charges	\$9,386,562
Estimated Indigent Care	(347,805)
Estimated Contractual Adjustments	<u>(4,302,610)</u>
Total	4,736,147
 Estimated Uncollectible Charges and Professional Courtesy	 <u>(894,736)</u>
Net Accounts Receivable	<u>\$3,841,411</u>

For the current year, estimated contractual adjustments were approximately \$4,303,000. The allowance for bad debts is based on actual bad debts experience to total charges for the current year on a clinic-by-clinic basis.

The Practice Plan does not record all indigent care on its books, therefore, the total adjustment to revenue for indigent care is not known.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 13 - CONSTRUCTION COSTS AND COMMITMENTS

The University's accumulated costs at June 30, 1998, for projects that are under construction or in the planning stage that are to be capitalized upon completion total approximately \$34,617,000. Costs to complete these projects are estimated to be approximately \$74,654,000 and the projects are expected to be completed over the next several years.

The University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs and/or renovation to existing facilities. Costs incurred to date on these projects amounted to approximately \$6,636,000 at June 30, 1998, and the estimated costs to complete are approximately \$9,410,000.

At June 30, 1998, the University held commitments with various contractors relating to all projects of approximately \$39,675,000. The University anticipates the funding of these projects out of current and future bond issues, capital improvement bond proceeds, private gifts, and federal funds for use on specific projects.

NOTE 14 - 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 of the University's deposits and investments are deposited with or managed by financial institutions and brokers. Cash and investments of the University's component units are not under the State Treasurer's control.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$132,760,751	Cash on Hand	\$ 147,832
Investments	8,806,297	Deposits Held by State	
		Treasurer	128,171,458
		Other Deposits	177,397
		Component Unit Deposits	
		Discrete	3,926,993
		Blended	337,070
		Investments Held by State	
		Treasurer	2,152,379
		Other Investments	2,352,780
		Component Unit	
		Investments- Discrete	<u>4,301,139</u>
	<u>\$141,567,048</u>		<u>\$141,567,048</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 1998, 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 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 credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 4, retirement of indebtedness plant funds include \$171,170 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

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 investment of endowment and similar funds includes common stock held by the State Treasurer for the University which is legally restricted. The investments are carried at fair value.

The University has other endowment investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Purchases and sales are accounted for on the transaction date. Realized and unrealized gains and losses on investments have been recorded. Gains and losses on securities transactions are reported separately in the endowment and similar funds. Earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Held by State Treasurer and Other Investments (Continued)

agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category. A summary of investments at June 30, 1998, by category of credit risk follows:

	Category		Fair Value
	1	3	
Common Stock Held by State			
Treasurer	\$2,151,078	\$ -	\$2,151,078
Common Stocks	-	427,781	427,781
U. S. Government Securities	-	170,170	170,170
Corporate Bonds	-	77,219	77,219
Pooled Investments*	-	<u>1,668,853</u>	<u>1,668,853</u>
 Total Categorized Investments	 <u>\$2,151,078</u>	 <u>\$2,344,023</u>	 4,495,101
 Miscellaneous			
Mortgage			8,757
Other			<u>1,300</u>
Total Investments			<u>\$4,505,158</u>

*Consist of marketable securities and government debt instruments.

Component Units' Deposits

The Trust and the Practice Plan cash and cash equivalents include cash on deposit with banks of \$3,185,287 and deposits in money market funds of \$741,706 and certificates of deposit of \$455,000. Of the amounts reported as cash and cash equivalents, approximately \$1,875,000 exceeded the limits of federal depository insurance (FDIC). Approximately \$1,465,000 of the \$1,875,000 was on deposit with a bank which has agreed to support balances to their full extent, and, to that end, reviews balances on a daily basis. This support consists of securities held by the financial institution, but not in the entity's name. Approximately \$410,000 is not subject to such an agreement. Management feels such cash is not subject to undue risk due to the reputable nature of the financial depositories.

The difference in cash on deposit with banks and cash presented in the financial statements is comprised of in-transit reconciliation items, as well as money market funds which are included in the financial statements as cash equivalents, but not on deposit with banks.

The Faculty House cash and cash equivalents include cash on deposit with banks of \$237,518 and a 90-day Treasury Note of \$99,552. Of the amounts reported as cash and cash equivalents, approximately \$14,799 exceeded the FDIC limits.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 14 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units' Deposits (Continued)

Cash and cash equivalents are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Information pertaining to the categorization by deposit type is not readily available.

Component Units' Investments

Investments of the component units consist primarily of U. S. Treasury notes and bonds and common stock. Investments in marketable debt and equity securities are carried at fair market value.

Investments of the component units consist of the following:

	<u>Cost</u>	<u>Market</u>
Marketable Debt Securities:		
U. S. Treasury Bonds and Notes	\$ 596,890	\$ 614,623
Marketable Equity Securities:		
Common Stock and Mutual Funds	2,456,471	3,095,275
Certificates of Deposit maturing after March 31, 1998	<u>591,241</u>	<u>591,241</u>
Total	<u>\$3,644,602</u>	<u>\$4,301,139</u>

Securities are held by an agent of the Trust in the Trust's name.

NOTE 15 - PLEDGES OF GIFTS

The University recognizes revenue from Gamecock Club pledges when collected. Such contributions totaling approximately \$6,802,000 in cash were collected in 1998 and recorded in the unrestricted current fund as private gifts revenue. Outstanding pledges at June 30, 1998, amounted to approximately \$1,990,000. Pledges are associated with the Gamecock Club membership drive at the University and are due in the next fiscal year. The pledges receivable are not included in the financial statements, nor has the amount of uncollectible pledges been estimated, because it is not practicable to estimate the net realizable value of these pledges.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 16 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South Carolina Development Foundation; the Lancaster County Educational Foundation, Inc.; and the South Carolina Universities Research and Education Foundation. The financial statements of these entities are audited, except for those indicated as unaudited, by independent auditors retained by them. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No.14, each fiscal year, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, awards and stipends to faculty and administrative staff, and reimbursement for computer and personnel services provided by the University. Also during the year, the University transferred to the Foundation funds from private sources for matching gifts.

The University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

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NOTE 16 - RELATED PARTIES (CONTINUED)

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. During the year, the University received funds for scholarships from the Association.

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

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Universities Research and Education Foundation (SCUREF) was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 1998, the University received funds from SCUREF for research.

The South Carolina Research Institute (SCRI) is a newly formed not-for profit research foundation which exists exclusively to facilitate the University of South Carolina's teaching, research and public service mission. It will support research programs of clear relevance to the state and nation. The research areas will focus on the environment, new technologies, economic development, health sciences and social issues. SCRI receives research funding from private sources and also competes for federal funds. During fiscal year 1998, the University received funds from SCRI for research.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 16 - RELATED PARTIES (CONTINUED)

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 1998, follows:

Funds Received from Related Parties

Carolina Piedmont Foundation	\$ 381,912
University of South Carolina Development Foundation	408,948
University of South Carolina Business Partnership Foundation	178,158
University of South Carolina Educational Foundation	4,040,455
Greater University of South Carolina Alumni Association	448,850
Lancaster County Educational Foundation	59,212
South Carolina Universities Research and Education Foundation ("SCUREF")	2,926,490
South Carolina Research Institute ("SCRI")	<u>3,737,759</u>
	<u>\$12,181,784</u>

The majority of SCRI revenues and the majority of SCUREF revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from other related parties are recorded as private gifts revenue in restricted current funds. Restricted current funds grants and contracts receivables include \$830,873 due from SCUREF and \$1,689,398 due from SCRI at June 30, 1998.

Funds Paid to Related Parties

University of South Carolina Development Foundation	\$1,414,245
University of South Carolina Educational Foundation	28,477
Carolina Piedmont Foundation	46,507
Greater University of South Carolina Alumni Association	<u>922</u>
	<u>\$1,490,151</u>

The latest available audited financial statements of these related parties are summarized on the following pages except for Lancaster County Educational Foundation, Inc., whose unaudited statements are summarized.

Note 16 - RELATED PARTIES (CONTINUED)

UNIVERSITY OF SOUTH CAROLINA
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NOTE 17 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; check preparation, banking, investment, and bond trustee services from the State Treasurer; legal services from the Attorney General; grants services from the Governor's Office; and records storage from the Department of Archives and History.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made to other agencies for unemployment and workers' compensation coverage for employees. Payments were also made to South Carolina Educational Television for use of parking facilities during stadium events. The amounts of 1998 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year; however, the University provided data processing services to various State agencies for fees which totaled \$290,706. The University received approximately \$23,000 from Coastal Carolina University for providing certain administrative tasks. These amounts are reported as revenue from sales and services of educational and other activities. This amount is reported as rental income in unrestricted current funds. As subrecipient, the University received federal grant funds from various State agencies.

NOTE 18 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including personal injury, invasion of privacy, medical malpractice, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of counsel, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the University. Because the risk of material loss in excess of insurance coverage is unlikely, a loss liability has not been recorded.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 18 - CONTINGENCIES AND LITIGATION (CONTINUED)

The various federal programs administered by the University for fiscal year 1998 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 19 - DISCRETELY PRESENTED COMPONENT UNITS

As of June 30, 1998, the discretely presented component units, the Trust and the Practice Plan, owe the University \$893,901 for the reimbursement of salary and fringe benefit costs. The University reports the receivable in restricted current funds as "Grants and Contracts Receivable - Other". There is no related liability reported in the "component units" column because the University and component units have different fiscal year-ends. At December 31, 1997, the Trust and Practice Plan owed the University \$545,000 for salary reimbursements which is reported in the component unit financial statements as accounts payable. The University received rental income of \$64,460 which is included in unrestricted current funds and contributions of \$1,161,287 which is reported in private gifts and contracts in restricted current funds for the year ended June 30, 1998.

Contributions expense of the component units for 1997 includes the following for the Trust:

To the University of South Carolina School of Medicine in support of faculty and staff appointments and related operational costs.	\$766,802
To the University of South Carolina in support of its various programs.	163,000
To the University of South Carolina College of Social Work in support of its programs.	35,000
To the University of South Carolina Development Foundation in support of the University of South Carolina.	20,000
To the University of South Carolina in support of renovations at the Veterans Administration Hospital.	201,527
To the University of South Carolina Educational Foundation in support of School of Medicine programs, development, and activities.	530,000

The following presents condensed financial statements as of and for the year ended December 31, 1997, for each of the discretely presented component units blended in the primary entity.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 20 - 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. The University sees the only reasonable application of business interruption insurance to be in university housing. Management believes such coverages are sufficient to preclude any significant uninsured losses for the covered risks except for directors and officers personal liability for fiduciary matters. 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.

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).

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.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1998

NOTE 20 - RISK MANAGEMENT (CONTINUED)

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.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University reports liabilities for underinsured risks of loss when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely (except for directors and officers as described above) 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 Financial Statements
June 30, 1998

NOTE 21 - DETAILS OF FUND BALANCES

Details of fund balances as of June 30, 1998, are as follows:

	<u>Current Funds</u>		Loan Funds	Endowment and Similar Funds	<u>Plant Funds</u>			Component Units
	<u>Unrestricted</u>	<u>Restricted</u>			<u>Unexpended</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>	
Unrestricted:								
Unexpended, Designated	\$ -	\$ -	\$ -	\$ -	\$23,847,647	\$ -	\$ -	\$ -
Endowment	-	-	-	82,221	-	-	-	-
Quasi-Endowment	-	-	-	12,193,602	-	-	-	-
Unrestricted, Unallocated	45,295,658	-	-	-	-	-	-	-
Deans Academic Enhancement, Designated	-	-	-	-	-	-	-	1,650,780
Departmental, Designated	-	-	-	-	-	-	-	4,293,090
Undesignated	-	-	-	-	-	-	-	3,879,246
Net Investment in Plant	-	-	-	-	-	-	678,496,821	-
Restricted:								
Contracts and Grants	-	6,294,664	-	-	-	-	-	-
Scholarships	-	1,046,814	-	-	-	-	-	-
U.S. Government Grants								
Refundable	-	-	16,138,151	-	-	-	-	-
University Loan Funds	-	-	1,955,227	-	-	-	-	-
Endowment and Similar Funds:								
Endowment	-	-	-	10,273,210	-	-	-	-
Quasi-Endowment	-	-	-	5,335	-	-	-	-
Term Endowment	-	-	-	54,605	-	-	-	-
Unexpended	-	-	-	-	47,920,944	-	-	-
Retirement of Indebtedness	-	-	-	-	-	1,269,404	-	-
Investment in Fixed Assets	-	-	-	-	-	-	-	4,807,980
Unrealized Investment Gains(Loses), Net	-	-	-	-	-	-	-	656,537
Totals	<u>\$45,295,658</u>	<u>\$7,341,478</u>	<u>\$18,093,378</u>	<u>\$22,608,973</u>	<u>\$71,768,591</u>	<u>\$1,269,404</u>	<u>\$678,496,821</u>	<u>\$15,287,633</u>

UNIVERSITY OF SOUTH CAROLINA
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June 30, 1998

NOTE 22 - NOTES RECEIVABLE

The University entered into an agreement with the South Carolina Budget and Control Board and South Carolina State University on June 23, 1998. Under the terms of the agreement the University signed a short-term note lending South Carolina State University \$2,100,000. The note carried an interest rate of 5.93 percent. Payment for the note, including \$14,183 interest, was received on August 18, 1998.

NOTE 23 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal and external investment pools, this Statement requires the equity position of each fund and component unit of the reporting entity that sponsors the pool to be reported as assets in those funds and component units. The University has restated its beginning fund balances as of July 1, 1997, for changes resulting from adoption of Statement No. 31.

In addition, the University corrected an error in fund classification. In the prior year the University recorded a liability ("advance from other funds") related to the purchase of a capital asset in the unexpended plant fund subgroup. GAAP for college and universities requires the liability associated with the asset be recorded in the same fund. Because the asset related to the liability resides in the investment in plant fund subgroup, the University made adjustments to record the liability in the investment in plant fund subgroup and to correct the respective fund balances.

Changes resulting from the adoption of GASB Statement 31 and the error correction are disclosed in the following schedule.

	As Previously <u>Reported</u>	GASB 31 <u>Adjustment</u>	Error <u>Adjustment</u>	As <u>Restated</u>
Fund Balances				
Unrestricted Current Funds	\$40,267,860	\$ 65,731	\$ -	\$ 40,333,591
Restricted Current Funds	5,791,113	31,504	-	5,822,617
Loan Funds	17,676,869	(482)	-	17,676,387
Endowment Funds	17,544,801	2,275,999	-	19,820,800
Unexpended Plant Funds	68,524,920	(34,716)	930,000	69,420,204
Retirement of Indebtedness Funds	1,308,043	(4,579)	-	1,303,464
Investment in Plant Funds	639,512,023	-	(930,000)	638,582,023