MOODY’S ASSIGNS Aa3 RATING TO THE UNIVERSITY OF SOUTH CAROLINA’ S $28.0 MILLION HIGHER EDUCATION REVENUE BONDS, SERIES 2009A; OUTLOOK IS STABLE

Aa3 RATINGS AFFIRMED ON EXISTING DEBT; UNIVERSITY HAS A TOTAL OF $395 MILLION PRO FORMA RATED DEBT OUTSTANDING

Higher Education
SC

Moody's Rating

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Moody’s Outlook  Stable

Opinion

NEW YORK, Feb 12, 2009 -- Moody’s Investors Service has assigned a Aa3 rating to the University of South Carolina’s $28.0 million Higher Education Revenue Bonds, Series 2009A. The rating outlook is stable. At this time Moody’s has also affirmed the Aa3 underlying ratings on the University’s $219 million outstanding Revenue Bonds, Parking Facility Revenue Bonds, and Athletic Facilities Revenue Bonds. Moody’s also maintains Aaa ratings on the outstanding State Institution Bonds, issued by the State for projects at USC and secured by the State’s general obligation pledge.

USE OF PROCEEDS: Proceeds will be used to fund the costs of construction of a new housing facility at the Upstate campus, a portion of the costs of a new Health Education Complex at the Upstate campus, fund a capitalized interest account and to pay costs of issuance.

LEGAL SECURITY: The Revenue Bonds are secured by a pledge of net revenues of the parking and housing systems of the University, as well as a broad basket of legally available Additional Funds totaling over $531 million in FY 2008. Other features include a rate maintenance covenant and additional bonds test.

The Athletic Facilities bonds are secured by a pledge of the net revenues of the University’s Athletic Department, a mandatory student fee, and admission ticket surcharges at the University’s football stadium and basketball arena. There is a debt service reserve requirement and 110% rate maintenance covenant.

DEBT-RELATED INTEREST RATE DERIVATIVES: The University itself has not entered into any debt related interest rate derivative contracts. The Carolina Piedmont Foundation, a component unit of the University, has entered into two swap agreements to hedge its variable interest rate exposure associated with its Series 2002 South Carolina Job Economic Development Authority Bonds and Series 2008 South Carolina Job Economic Development Authority Bonds with a total notional amount of approximately $31.6 million.

STRENGTHS

*Growing enrollment trends with over 36,000 full-time equivalent students and improving student qualifications at vibrant flagship University for the Aaa-rated State of South Carolina.

*Consistently positive operating performance with three-year average operating margin of 4.8% supporting debt service coverage of 3.5 times.

*Good cushion for comprehensive debt with expendable financial resources to comprehensive pro forma
debt of 1.0 times; future borrowing plans remain manageable. The University has a relatively conservative debt structure, with 14% of total direct debt in a variable rate structure or one-year notes. Given recent investment losses, Moody's has calculated certain indicators assuming a 30% reduction in expendable financial resources from $512 million of June 30, 2008 to a pro forma level of $358 million. The reduced expendable financial resources cushion pro forma debt by 0.7 times or 40% of annual operating expenses.

*Increasing sponsored research awards ($107 million in research expenditures in FY 2008) bolstered by ongoing strategic investments including a new research park named Innovista.

CHALLENGES

*Continued reliance on state appropriations which have been declining as a portion of operating revenue from 36% in 2002 to 24% in 2008. Given current budget pressures at the state, the University has already weathered a 22% reduction in state operating support with additional cuts expected in FY2010. USC has made relatively aggressive tuition price increases to help offset reductions, leaving it with somewhat reduced pricing power relative to peers. However, the university has seen a strong and sustained increase in applications indicating continued healthy market demand.

*Research program, while benefiting from healthy sponsor diversity, likely to experience heightened competition for federal funding which constitutes approximately two-thirds of awards.

MARKET/COMPETITIVE POSITION: IMPROVING MARKET POSITION REFLECTS VIBRANT REGIONAL DEMOGRAPHIC TRENDS AND STEPPED-UP SPONSORED RESEARCH ACTIVITY

Moody's expects that the University of South Carolina's established reputation as the State's flagship and a leading research institution, as well as its location in the demographically vibrant Southeast, will result in moderately growing student enrollment in the near future.

The University currently enrolls over 36,000 students on a full-time equivalent basis, approximately 76% of whom are state residents. Selectivity at the University's main campus in Columbia for the fall of 2008 was 58.5% showing a trend of continued increases in demand volume. USC has been able to improve the academic qualifications of its incoming class while also increasing the size of the undergraduate entering class has risen from just under 3,500 in 2003 to over 3,800 in 2008. The University also operates smaller campuses in Aiken, Beaufort, Upstate and other regional sites in the state. The University expects another strong enrollment year in academic year 2009-2010 with an increase in the academic quality of its incoming freshmen class at the Columbia campus. Graduate and professional enrollment system wide fell 1% in the fall of 2007, but remains relatively high at 7,723, with graduate students representing 28% of total headcount enrollment on the Columbia campus.

Sponsored research funding at USC increased 11% in fiscal year 2008 from the prior year to $206 million reflecting recent momentum and management's strategic investments in research activities. While approximately two-thirds of the awards came from the federal government, USC enjoys a relatively high degree of funding diversity and is not overly reliant on any one federal agency. We expect the University's ongoing investment in research facilities will enhance its competitive profile and industry partnerships.

OPERATING PERFORMANCE: HEALTHY ANNUAL OPERATING PERFORMANCE DESPITE MATERIAL REDUCTIONS IN STATE FUNDING

Moody's expects that the University will continue to produce positive operating margins despite a challenging state funding environment. Appropriations from the Aaa-rated State of South Carolina, which accounted for 24% of the University's operating budget in 2008, were down from 36% in 2002. The funding outlook from the state is weak, with the University already absorbing a 22% cut in FY2009 with additional reductions expected next year. USC has managed to reduce various expenditures and offset the losses to some degree with marked increases student fees through both enrollment growth and rate increases. The University has a three-year average operating margin of 4.8% as calculated by Moody's supporting debt service coverage of 3.5 times.

The Aaa rating for the State of South Carolina is based on the state's conservative debt and fiscal management, which has been particularly important during past periods of slowed state economic and financial growth. In addition to various established statutory and fiscal policy requirements designed to safeguard financial stability, the state has historically taken quick action to address projected budget gaps and has enacted legislation in recent legislative sessions to eliminate a cumulative operating deficit, restore reserves, control expenditures, and develop a formal process for long-term financial planning. The outlook for the bond rating is stable. For more information about the state's rating please see our report dated June 6, 2008.

To offset the effects of the reduction in state support over the past several years, the University has increased tuition, which has continued to exhibit healthy growth in overall net tuition revenue. Despite the increases in tuition ($8,838 for resident undergrads at USC Columbia in the current academic year), costs of attendance will remain lower than at Clemson University (rated Aa3 with a stable outlook), the University's
main competitor. However, the University is now the highest priced institution for a resident in the Southeastern Conference. Student interest, as measured by application volume, however, continues to increase indicating favorable market demand despite the price increases. Concerns about affordability and access, heightened by recessionary declines in household wealth and income levels, will likely temper future price increases, especially at the system's regional campuses.

The Athletic Facilities Revenue Bonds are secured by a pledge of the net revenues of the University's Athletics Department, a mandatory student fee, and admission ticket surcharges at the University's football stadium and basketball arena. Debt service coverage in FY2008 was 2.20 times, down from 3.08 times in FY2007, with reduction driven from increased debt service. Funds available for debt service increased 7.3% in FY2008. The mandatory student fee portion of the pledge made up $1.3 million of the $13.3 million in funds available for debt service in FY2008. Net revenues of the Athletic Department were $9.9 million in FY 2008, and while more volatile, have been demonstrating increases. We believe that prospects for the pledge going forward are favorable.

The net revenues of the housing and parking systems continue to provide comfortable debt service coverage of the General Revenue bonds with 2.02 times coverage in FY2008, not including the pledge of Additional Funds. Given consistently strong student demand for the auxiliary system's offerings, Moody's expects this performance to continue. The housing system has enjoyed fall occupancy above 95% and the parking system continues to have untapped pricing power for its structured and surface parking permits.

BALANCE SHEET PROFILE: GROWING RESOURCE LEVELS AND MANAGEABLE BORROWING PLANS

Moody's believes that the University's financial position remains sound and consistent with the long-term Aa3 rating despite recent investment losses. Total financial resources at the University and several affiliated foundations reached $712 million in FY 2007, up from $393 million in 2002. At the end of FY2008, expendable financial resources covered pro-forma debt 1.0 times and annual operating expenses by 0.57 times. Given recent investment losses, Moody's has calculated certain indicators assuming a 30% reduction in expendable financial resources from $512 million of June 30, 2008 to a pro forma level of $358 million. The reduced expendable financial resources cushion pro forma debt by 0.7 times or 40% of annual operating expenses.

USC's pooled endowment had a negative 7.8% return in FY 2008, and an estimated 27.9% loss in the first half of FY2009. The asset allocation as of 12/31/2008 was 63% global equities, 20% fixed income, 2% private equity and 15% hedge funds. USC had total gift revenue of $84 million in fiscal year 2008 and management is actively planning a new campaign which will emphasize scholarship funding.

Future capital needs of the University are manageable and expected to be supported by a variety of funding sources. With direct debt-to-total revenues of 0.6 times, and debt service amounting to a manageable 3.5% of operations, we believe the University has considerable debt capacity at the Aa3 level.

Outlook

The stable outlook is based on anticipated moderate enrollment growth, sound operating performance, healthy debt service coverage from pledge revenues, manageable additional borrowings, and maintenance of a healthy level of unrestricted resources at the University.

What Could Change the Rating UP

Significant growth in financial resource base; further improvements in scope of research activities and student market position.

What Could Change the Rating DOWN

Marked decline in operating performance; significant reductions in public support; decline in coverage by pledged revenues.

KEY FACTS (Fiscal year 2008 financial data and Fall 2008 enrollment data):

*Indicators in parentheses represent a pro-forma 30% decline in financial resources reflecting the weak investment environment

FTE enrollment: 36,374 students

Columbia campus freshman selectivity: 58.5%

Columbia campus freshman yield: 38.8%
Total financial resources: $711 million—including affiliated foundations ($498 million)

Total pro forma debt: $529 million—including affiliated foundations

Expendable financial resources to pro forma debt: 1.0 times (0.7 times)

Expendable financial resources to operations: 0.57 times (0.40 times)

State appropriation per student: $6,552

Average operating margin: 4.8%

State general obligations rating: Aaa with stable outlook

Operating reliance on state support: 24%

RATED DEBT


Series 2005 Refunding Series A Revenue Bonds: Aa3 underlying, MBIA insured (the current financial strength rating of MBIA is Baa1 with a developing outlook)

Series 1999A, 2004 Revenue Bonds: Aa3 underlying, Ambac insured (the current financial strength rating of Ambac is Baa1 with a developing outlook)

Series 2002 Athletic Revenue Bonds: Aa3 underlying, Ambac insured (the current financial strength rating of Ambac is Baa1 with a developing outlook)

Series 2000A Revenue Bonds: Aa3 underlying, FGIC insured (the current financial strength rating of FGIC is Caa1 with a negative outlook)

Series 2005 and 2006A Revenue Bonds: Aa3 underlying, XLCA insured (the current financial strength rating of Syncora is Caa1 on watch with uncertain direction)

Series 2003B Revenue Bonds: Aa3

Series 2008A Revenue Bonds: Aa3 underlying, FSA insured (the current financial strength rating of FSA is Aa3 with a developing outlook)

Series 2008A and 2008B Athletic Revenue Bonds: Aa3

CONTACTS

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Underwriter: John Augustine, Barclays Capital, 212-526-5436; Christoph Muelbert, Barclays Capital, 212-526-0756

The last rating action was on June 4, 2008 when the ratings of the University of South Carolina were affirmed.

The principal methodology used in rating the University of South Carolina was Public Colleges and Universities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

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