

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS**

**CONTENTS**

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 9
<b>FINANCIAL STATEMENTS</b>	
Statements of net assets	10
Statements of revenues, expenses and changes in net assets	11
Statements of cash flows	12 - 13
<b>COMPONENT UNITS</b>	
Governmental Discretely Presented - Statement of net assets	14
Governmental Discretely Presented - Statement of revenues, expenses and changes in net assets	15
Non-Governmental Discretely Presented - Condensed statements of financial position	16
Non-Governmental Discretely Presented - Condensed statements of activities	17 - 18
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	19 - 47
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	48 - 49



## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
University of South Carolina  
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina (the University) as of and for the year ended June 30, 2012, which collectively comprise the Campuses' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the University and the Campuses. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust). These financial statements represent approximately 3 percent, 3 percent, and 7 percent, respectively, of assets, net assets, and revenues of the business-type activities. We also did not audit the financial statements of the University of South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster (collectively referred to as the Foundations). These financial statements represent approximately 86 percent, 92 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the Campuses' aggregate discretely presented component units. The financial statements of the Trust and the Foundations were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust and the Foundations, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundations were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Campuses are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the University that is attributable to the transactions of the Campuses. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Campuses as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012 on our consideration of the Campuses' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Elliott Davis, LLC*

Columbia, South Carolina  
December 31, 2012

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) includes the Columbia campus and the four regional campuses at Lancaster, Salkehatchie, Sumter and Union. The School of Medicine with locations in Columbia and Greenville is also included. Management's Discussion and Analysis provides an overview and analysis of the Campuses financial activities for the fiscal year ended June 30, 2012, with comparative information for the fiscal year ended June 30, 2011. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2012 and 2011 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses and will not include its blended component unit, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust). Neither will this discussion include the discretely presented component units, the University of South Carolina's Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina - Lancaster.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campuses, the results of operations, and cash flows of the Campuses as a whole.

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

**STATEMENT OF NET ASSETS**

The Statement of Net Assets presents the assets, liabilities, and net assets of the Campuses as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Campuses. The Statement of Net Assets presents end-of-year data concerning the following:

- Assets - Property that we own and what we are owed by others
- Liabilities - What we owe to others and have collected from others before we have provided the service
- Net Assets - The difference between assets and liabilities

The Statement of Net Assets is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution. Net assets are divided into the following three major categories:

- Invested in capital assets, net of related debt - Provides the institution's equity in property, plant, and equipment owned by the institution.
- Restricted net assets -
  - a. Nonexpendable restricted net assets consist solely of the University's permanent endowment funds and are only available for investment purposes.
  - b. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net assets - Unrestricted assets are available to the institution for any lawful purpose of the institution.

**Summary of Net Assets**

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Assets</b>				
Current assets	\$ 593,633,106	\$ 526,631,997	\$ 67,001,109	12.72%
Capital assets, net	934,612,649	884,596,851	50,015,798	5.65%
Other noncurrent assets	<u>122,462,378</u>	<u>113,640,594</u>	<u>8,821,784</u>	7.76%
<b>Total assets</b>	<u>1,650,708,133</u>	<u>1,524,869,442</u>	<u>125,838,691</u>	8.25%
<b>Liabilities</b>				
Current liabilities	107,568,950	96,413,894	11,155,056	11.57%
Noncurrent liabilities	<u>480,011,813</u>	<u>407,728,284</u>	<u>72,283,529</u>	17.73%
<b>Total liabilities</b>	<u>587,580,763</u>	<u>504,142,178</u>	<u>83,438,585</u>	16.55%
<b>Net assets</b>				
Invested in capital assets, net of related debt	469,528,173	491,520,917	(21,992,744)	(4.47%)
Restricted - nonexpendable	71,629,951	65,985,661	5,644,290	8.55%
Restricted - expendable	190,924,203	130,046,639	60,877,564	46.81%
Unrestricted	<u>331,045,043</u>	<u>333,174,047</u>	<u>(2,129,004)</u>	(0.64%)
<b>Total net assets</b>	<u>\$ 1,063,127,370</u>	<u>\$ 1,020,727,264</u>	<u>\$ 42,400,106</u>	4.15%

- Total assets of the Campuses increased by \$125.8 million. Current assets increased \$67 million, primarily due to the increase in restricted expendable net assets of \$60.9 million which is attributed mainly to proceeds from the issuance of special higher education revenue bonds and athletic facilities revenue bonds. Net capital assets increased by \$50 million based on the completion of several athletic facility projects and residence hall renovations and up fits during fiscal year 2012.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

- The increase in liabilities of \$83.4 million is primarily attributable to an increase in long term debt. Special higher education revenue bonds in the amount of \$61.9 million were issued to fund the construction of new facilities for the Darla Moore School of Business. Also, \$13.6 million in athletic facilities revenue bonds were issued for athletic facilities and projects. Refundings of state institution bonds, revenue bonds and athletic facilities revenue bonds were conducted to obtain interest savings on previously issued bonds.
- Net assets of the Campuses increased during the year by \$42.4 million. The increase is primarily driven by the \$60.9 million increase in restricted expendable funds and a \$22 million decrease invested in capital assets, net of related debt. Expendable restricted net assets increased due to the proceeds from the issuance of special higher education bonds and athletic facilities revenue bonds. The decrease in net assets invested in capital assets, net of related debt, is due to an overall increase in capital leases and debt of \$72 million while capital assets only increased by \$50 million.

**Assets, Liabilities and Net Assets**



**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

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

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

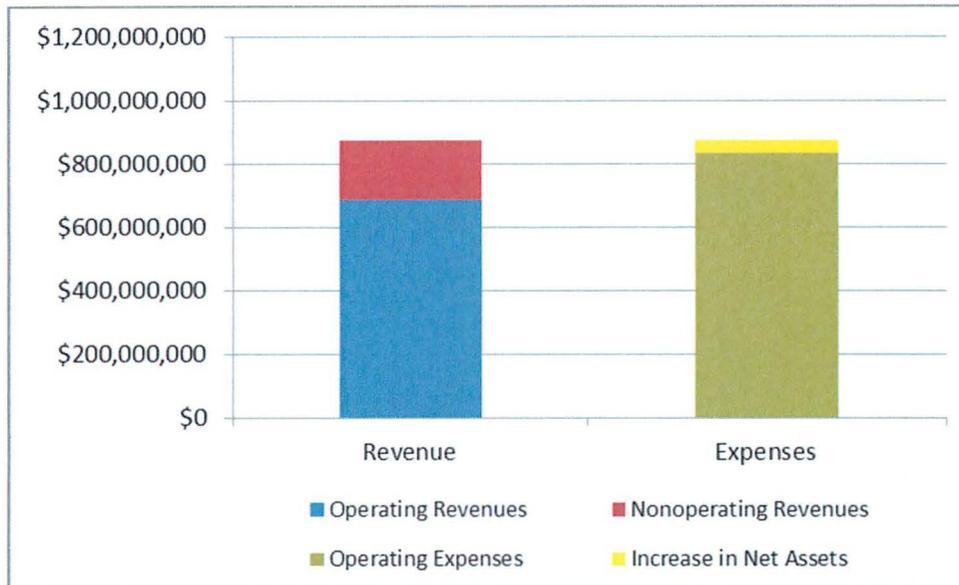
**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

Operating revenues are received for providing goods and services to the various customers and constituencies of the institutions. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institutions. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues and transfers."

**Summary of Revenues, Expenses and Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues:</b>				
Student tuition and fees, net	\$ 306,096,019	\$ 282,275,066	\$ 23,820,953	8.44%
Federal grants and contracts	131,473,677	141,048,777	(9,575,100)	(6.79%)
State grants and contracts	63,259,457	59,402,397	3,857,060	6.49%
Local grants and contracts	793,139	1,114,923	(321,784)	(28.86%)
Nongovernmental grants and contracts	38,070,586	25,572,483	12,498,103	48.87%
Sales and services of educational and other activities	21,950,027	22,875,178	(925,151)	(4.04%)
Sales and services of auxiliary enterprises, net	114,177,803	105,449,633	8,728,170	8.28%
Interest collected on student loans	306,122	289,512	16,610	5.74%
Other fees	5,563,073	5,686,531	(123,458)	(2.17%)
Other operating revenues	<u>4,183,187</u>	<u>6,393,323</u>	<u>(2,210,136)</u>	<u>(34.57%)</u>
<b>Total operating revenues</b>	<u>685,873,090</u>	<u>650,107,823</u>	<u>35,765,267</u>	<u>5.50%</u>
<b>Operating Expenses:</b>				
Salaries and wages	434,340,771	401,786,897	32,553,874	8.10%
Fringe benefits	119,340,899	114,548,756	4,792,143	4.18%
Services and supplies	191,789,943	184,796,296	6,993,647	3.78%
Utilities	25,191,633	25,406,308	(214,675)	(0.84%)
Scholarships and fellowships	17,283,391	18,085,551	(802,160)	(4.44%)
Depreciation expense	<u>43,638,754</u>	<u>43,310,696</u>	<u>328,058</u>	<u>0.76%</u>
<b>Total operating expenses</b>	<u>831,585,391</u>	<u>787,934,504</u>	<u>43,650,887</u>	<u>5.54%</u>
<b>Operating loss</b>	(145,712,301)	(137,826,681)	(7,885,620)	5.72%
<b>Net nonoperating revenues</b>	<u>170,344,839</u>	<u>205,671,828</u>	<u>(35,326,989)</u>	<u>(17.18%)</u>
<b>Income before other revenues and transfers</b>	24,632,538	67,845,147	(43,212,609)	(63.69%)
<b>Other revenues and transfers</b>	<u>17,767,568</u>	<u>24,464,176</u>	<u>(6,696,608)</u>	<u>(27.37%)</u>
<b>Increase in net assets</b>	42,400,106	92,309,323	(49,909,217)	(54.07%)
<b>Net assets, beginning of year</b>	<u>1,020,727,264</u>	<u>928,417,941</u>	<u>92,309,323</u>	<u>9.94%</u>
<b>Net assets, end of year</b>	<u>\$ 1,063,127,370</u>	<u>\$ 1,020,727,264</u>	<u>\$ 42,400,106</u>	<u>4.15%</u>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**



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

- A net \$23.8 million increase in student tuition and fees, a net \$8.7 million increase in sales and services of auxiliary enterprises, and a \$6.5 million increase in grants and contracts were largely responsible for the overall \$35.8 million increase in operating revenues. The increase in student tuition and fees is due both to enrollment increases at the Campuses and the 3.9 percent tuition increase at the Campuses. The tuition increase is necessary for meeting the Campuses' mission and strategic goals especially as state appropriations continue to decline. Sales and services of auxiliary enterprises are primarily driven by athletics, including increased conference distribution and trademark and licensing revenue. Contracts and grants marginal increase is due to the wrapping up of the federal stimulus allocations and federal grants received from this program.
- Operating expenses increased \$43.7 million, approximately 5.5 percent. The majority of the increase is due to the increase in personnel and fringe from additional faculty and staff to serve the increased student enrollment. The Campuses also implemented a bonus plan in fiscal year 2012 in lieu of a base salary increase. Services and supplies increased \$7 million due to inflationary and enrollment increases.
- Net nonoperating revenues decreased \$35.3 million due to continued reductions in state appropriations. Also, 2012 was the first year since 2009 that the Campuses did not have State Fiscal Stabilization Funds available for expenditure. The balance of these federal stimulus dollars were spent during fiscal year 2011.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

**STATEMENT OF CASH FLOWS**

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into the following five parts.

- Operating Cash Flows - the net cash used by the operating activities of the institution.
- Cash Flows from Noncapital Financing Activities - the cash received and spent for nonoperating, noninvesting, and non-capital financing purposes.
- Cash Flows from Capital and Related Financing Activities - the cash used for the acquisition and construction of capital and related items.
- Cash Flows from Investing Activities - the purchases, proceeds, and interest received from investing activities.
- Reconciliation - reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

During the year, various projects on the Columbia campus were in process including renovations to Petigru College and construction of the Darla Moore School of Business. The Athletics department also had several projects in process including renovations to the former Farmer's Market, construction of the Rice Athletics Center, a new softball stadium and a new video board for the football stadium.

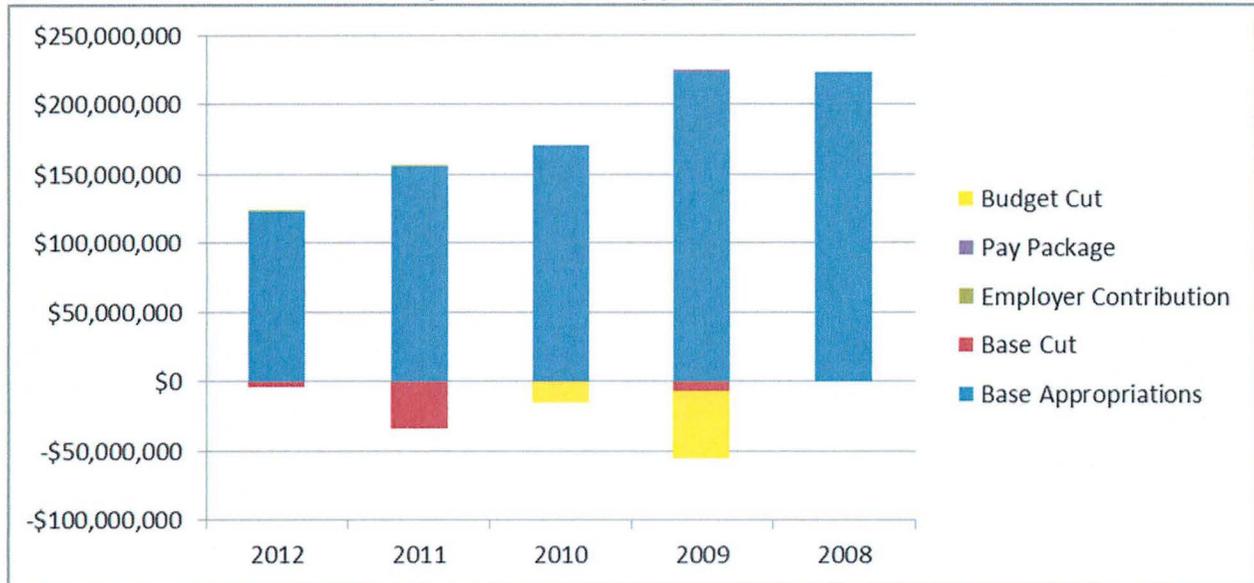
The Campuses' indebtedness consists of bonds payable of \$447.7 million, capital lease obligations of \$16.4 million, and notes payable of \$1 million. During the current year, \$52.6 million in bonds were refunded in order to obtain improved interest rate savings and \$75.5 million in revenue bonds were issued to fund various capital projects.

**ECONOMIC OUTLOOK**

The economic position of the Campuses continues to be loosely tied to that of the State of South Carolina as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The Campuses received a significant state funding reduction of 6 percent to begin the 2012 year totaling \$6,468,345. Along with all public higher education institutions in South Carolina, the University received a state funding reduction of 6 percent to begin the 2012 year totaling \$7.3 million across the system. The State closed the fiscal year 2012 with revenues of more than \$380 million above the original Annual Appropriations Act leading to a surplus for the third straight year. Additionally, the State of South Carolina allocated a pay package for state employees for the first time since 2008 and provided a share of new personnel and fringe funds to the University.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Management's Discussion and Analysis**  
**(Unaudited)**

**System State Appropriations**



The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2013 year were in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuition for the Columbia Campus is comparable with similar institutions in the State and tuition at the two-year regional campuses provides an opportunity for place-bound students to earn associates and baccalaureate degrees at a cost less than a residential institution. Demand for enrollment and interest in the USC system campuses remains strong with record number of applications at the Columbia campus and increased fall 2012 enrollments with student headcount of 35,664 and full time equivalent student enrollment of 31,994, a 2.5 percent increase year over year.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statements of Net Assets**

	June 30, 2012 <u>University</u>	December 31, 2011 <u>Trust</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 335,663,612	\$ 13,941,720	\$ 349,605,332
Investments	-	6,979,482	6,979,482
Accounts receivable, net	53,174,728	5,791,633	58,966,361
Student loans receivable, current	2,544	-	2,544
Patients accounts receivable, net	-	3,543,000	3,543,000
Capital improvement bonds proceeds receivable	107,181	-	107,181
Inventories	1,722,817	-	1,722,817
Prepaid items	4,616,917	-	4,616,917
Restricted - cash and cash equivalents	190,649,967	141,668	190,791,635
Funds due from others	7,695,340	-	7,695,340
Total current assets	<u>593,633,106</u>	<u>30,397,503</u>	<u>624,030,609</u>
Noncurrent assets:			
Investments	4,315,304	-	4,315,304
Prepaid items	2,546,510	-	2,546,510
Notes receivable	19,638,910	-	19,638,910
Restricted - cash and cash equivalents	77,359,819	-	77,359,819
Restricted - federal student loans receivable	16,200,365	-	16,200,365
Capital assets, net of accumulated depreciation	934,612,649	11,985,832	946,598,481
Other assets	2,401,470	-	2,401,470
Total noncurrent assets	<u>1,057,075,027</u>	<u>11,985,832</u>	<u>1,069,060,859</u>
Total assets	<u>1,650,708,133</u>	<u>42,383,335</u>	<u>1,693,091,468</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	26,802,357	7,082,781	33,885,138
Retainage payable - current portion	245,052	-	245,052
Accrued interest payable	2,887,821	-	2,887,821
Accrued payroll and related liabilities	12,493,012	196,930	12,689,942
Accrued compensated absences - current portion	11,988,242	657,769	12,646,011
Capital lease obligations - current portion	500,000	144,092	644,092
Long-term debt - current portion	16,040,711	5,950,000	21,990,711
Deferred revenues	33,636,633	-	33,636,633
Deposits	2,403,146	-	2,403,146
Other liabilities	549,544	-	549,544
Funds held for others	22,432	-	22,432
Total current liabilities	<u>107,568,950</u>	<u>14,031,572</u>	<u>121,600,522</u>
Noncurrent liabilities:			
Retainage payable	1,438,921	-	1,438,921
Accrued compensated absences	13,518,655	741,740	14,260,395
Deferred revenues	341,667	-	341,667
Federal loan liability	16,168,805	-	16,168,805
Capital lease obligations	15,909,142	282,000	16,191,142
Long-term debt	432,634,623	-	432,634,623
Total noncurrent liabilities	<u>480,011,813</u>	<u>1,023,740</u>	<u>481,035,553</u>
Total liabilities	<u>587,580,763</u>	<u>15,055,312</u>	<u>602,636,075</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	469,528,173	5,609,740	475,137,913
Restricted for:			
Nonexpendable	71,629,951	-	71,629,951
Expendable			
Scholarships, research, instruction, and other	22,867,791	-	22,867,791
Loans	2,781,704	-	2,781,704
Capital projects	144,324,986	-	144,324,986
Debt service	20,949,722	141,668	21,091,390
Unrestricted	331,045,043	21,576,615	352,621,658
Total net assets	<u>\$ 1,063,127,370</u>	<u>\$ 27,328,023</u>	<u>\$ 1,090,455,393</u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA**  
**COLUMBIA AND REGIONALS**  
**Statements of Revenues, Expenses and Changes in Net Assets**

	For the years ended		Total
	June 30, 2012 University	December 31, 2011 Trust	
<b>OPERATING REVENUES</b>			
Student tuition and fees (\$23,352,851 pledged for bonds)	\$ 486,486,605	\$ -	\$ 486,486,605
Less scholarship allowance	(180,390,586)	-	(180,390,586)
Patient services, net	-	39,220,114	39,220,114
Federal grants and contracts	131,473,677	-	131,473,677
State grants and contracts	63,259,457	-	63,259,457
Local grants and contracts	793,139	-	793,139
Nongovernmental grants and contracts	38,070,586	-	38,070,586
Sales and services of educational and other activities	21,950,027	-	21,950,027
Sales and services of auxiliary enterprises (\$16,079,514 pledged for bonds)	118,473,133	-	118,473,133
Less scholarship allowance	(4,295,330)	-	(4,295,330)
Interest collected on student loans	306,122	-	306,122
Other fees (\$1,708,602 pledged for bonds)	5,563,073	-	5,563,073
Other operating revenues	4,183,187	26,177,526	30,360,713
Total operating revenues	<u>685,873,090</u>	<u>65,397,640</u>	<u>751,270,730</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	434,340,771	34,167,455	468,508,226
Fringe benefits	119,340,899	4,247,807	123,588,706
Services and supplies	191,789,943	23,427,927	215,217,870
Utilities	25,191,633	-	25,191,633
Scholarships and fellowships	17,283,391	-	17,283,391
Depreciation expense	43,638,754	1,020,284	44,659,038
Total operating expenses	<u>831,585,391</u>	<u>62,863,473</u>	<u>894,448,864</u>
Operating income (loss)	<u>(145,712,301)</u>	<u>2,534,167</u>	<u>(143,178,134)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	102,730,670	-	102,730,670
Federal grants	33,729,654	-	33,729,654
Gifts	35,539,152	-	35,539,152
Investment income	7,486,257	229,282	7,715,539
Endowment income	6,613,876	-	6,613,876
Loss on disposal of capital assets	(570,817)	-	(570,817)
Interest on capital asset related debt	(15,183,953)	(258,623)	(15,442,576)
Net nonoperating revenues (expenses)	<u>170,344,839</u>	<u>(29,341)</u>	<u>170,315,498</u>
Income before other revenues and transfers	24,632,538	2,504,826	27,137,364
State capital appropriations	2,398,106	-	2,398,106
Capital grants and gifts	10,959,327	-	10,959,327
Additions to permanent endowments	5,384,105	-	5,384,105
Transfers to other state funds, net	(1,339,757)	-	(1,339,757)
Transfers from other campuses, net	365,787	-	365,787
Change in net assets	42,400,106	2,504,826	44,904,932
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,020,727,264</u>	<u>24,823,197</u>	<u>1,045,550,461</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,063,127,370</u>	<u>\$ 27,328,023</u>	<u>\$ 1,090,455,393</u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statements of Cash Flows**

	For the years ended		Total
	June 30, 2012 University	December 31, 2011 Trust	
<b>OPERATING ACTIVITIES</b>			
Student tuition and fees	\$ 304,351,636	\$ -	\$ 304,351,636
Patient services, net	-	39,017,114	39,017,114
Research grants and contracts	227,352,962	-	227,352,962
Sales and services of educational and other activities	22,257,834	-	22,257,834
Sales and services of auxiliary enterprises	113,774,586	-	113,774,586
Student loans disbursed	(2,219,451)	-	(2,219,451)
Student loans collected	2,730,067	-	2,730,067
Interest collected on student loans	306,122	-	306,122
Inflows from federal family education loans	229,703,123	-	229,703,123
Outflows from federal family education loans	(229,936,238)	-	(229,936,238)
Payments to employees for services	(431,070,034)	(34,098,540)	(465,168,574)
Payments to employees for benefits	(119,277,303)	(4,180,351)	(123,457,654)
Payments to suppliers	(213,255,469)	(23,131,180)	(236,386,649)
Payments to students for scholarships and fellowships	(17,283,391)	-	(17,283,391)
Other receipts	9,100,904	25,761,887	34,862,791
Inflows from agency funds	55,336,222	-	55,336,222
Outflows from agency funds	(58,798,699)	-	(58,798,699)
Net cash provided by (used for) operating activities	<u>(106,927,129)</u>	<u>3,368,930</u>	<u>(103,558,199)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
State appropriations	102,730,670	-	102,730,670
Federal grants	34,193,636	-	34,193,636
Gifts	35,283,521	-	35,283,521
Additions to permanent endowments	5,384,105	-	5,384,105
Transfers to other state funds, net	(1,093,922)	-	(1,093,922)
Federal loan liability	(181,383)	-	(181,383)
Net cash provided by noncapital financing activities	<u>176,316,627</u>	<u>-</u>	<u>176,316,627</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from capital debt	143,995,221	-	143,995,221
State capital appropriations	6,465,821	-	6,465,821
Capital grants and gifts	7,140,896	-	7,140,896
Purchase and construction of capital assets	(88,427,461)	(525,162)	(88,952,623)
Principal paid on capital asset related debt	(71,614,250)	(557,507)	(72,171,757)
Interest paid on capital asset related debt	(18,288,040)	(258,623)	(18,546,663)
Net cash used for capital and related financing activities	<u>(20,727,813)</u>	<u>(1,341,292)</u>	<u>(22,069,105)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of investments	-	(2,187,193)	(2,187,193)
Proceeds from the sale of investments	1,003,888	2,104,544	3,108,432
Investment Income	7,467,417	76,940	7,544,357
Endowment Income	7,191,204	-	7,191,204
Net cash provided by (used for) investing activities	<u>15,662,509</u>	<u>(5,709)</u>	<u>15,656,800</u>
Net increase in cash and cash equivalents	64,324,194	2,021,929	66,346,123
Cash and cash equivalents, beginning of year	539,349,204	12,061,459	551,410,663
Cash and cash equivalents, end of year	<u>\$ 603,673,398</u>	<u>\$ 14,083,388</u>	<u>\$ 617,756,786</u>
<b>Reconciliation of cash and cash equivalents</b>			
Cash and cash equivalents	\$ 335,663,612	\$ 13,941,720	\$ 349,605,332
Restricted - cash and cash equivalents, current	190,649,967	141,668	190,791,635
Restricted - cash and cash equivalents, noncurrent	77,359,819	-	77,359,819
	<u>\$ 603,673,398</u>	<u>\$ 14,083,388</u>	<u>\$ 617,756,786</u>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statements of Cash Flows**

	For the years ended		Total
	June 30, 2012 University	December 31, 2011 Trust	
<b>Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities</b>			
Operating income (loss)	\$ (145,712,301)	\$ 2,534,167	\$ (143,178,134)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation expense	43,638,754	1,020,284	44,659,038
Student loans cancelled	335,440	-	335,440
Change in current assets and liabilities			
Accounts receivable, net	(8,284,086)	(415,639)	(8,699,725)
Patient accounts receivables, net	-	(203,000)	(203,000)
Student loans receivable	510,616	-	510,616
Inventories	59,103	-	59,103
Prepaid items	(919,194)	-	(919,194)
Accounts payable	4,364,578	296,747	4,661,325
Retainage payable - non-capital	(113,820)	-	(113,820)
Accrued payroll	429,249	-	429,249
Accrued benefits	63,596	67,456	131,052
Accrued annual leave and related liabilities	2,841,488	68,915	2,910,403
Deferred revenues	(643,379)	-	(643,379)
Deposits	134,948	-	134,948
Other liabilities	63,471	-	63,471
Funds held for others	(3,695,592)	-	(3,695,592)
Net cash provided by (used for) operating activities	<u>\$ (106,927,129)</u>	<u>\$ 3,368,930</u>	<u>\$ (103,558,199)</u>
<b>NONCASH TRANSACTIONS</b>			
Gifts of capital assets reducing proceeds of capital grants and gifts	<u>\$ 923,373</u>	<u>\$ -</u>	<u>\$ 923,373</u>
Loss on disposal of capital assets, net	<u>\$ (570,817)</u>	<u>\$ -</u>	<u>\$ (570,817)</u>
Transfer of capital assets to other campuses, net	<u>\$ 119,952</u>	<u>\$ -</u>	<u>\$ 119,952</u>
Change in value of investments recognized in investment income	<u>\$ -</u>	<u>\$ (119,303)</u>	<u>\$ (119,303)</u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u>\$ 111,037</u>	<u>\$ -</u>	<u>\$ 111,037</u>
Change in value of investments recognized in endowment income	<u>\$ (688,365)</u>	<u>\$ -</u>	<u>\$ (688,365)</u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
University of South Carolina Research Foundation  
Governmental Discretely Presented Component Unit  
Statement of Net Assets  
June 30, 2012**

**ASSETS**

Current assets

Cash and cash equivalents	\$ 728,632
Restricted cash and cash equivalents	35,509,545
Accounts receivable, net	33,641,043
Prepaid items and deposits	<u>343,042</u>
Total current assets	<u>70,222,262</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>220,592</u>
Total noncurrent assets	<u>220,592</u>
Total assets	<u>70,442,854</u>

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	54,801,836
Notes payable - current portion	62,759
Deferred revenue	<u>14,323,424</u>
Total current liabilities	<u>69,188,019</u>

Noncurrent liabilities

Notes payable	<u>124,873</u>
Total noncurrent liabilities	<u>124,873</u>
Total liabilities	<u>69,312,892</u>

**NET ASSETS**

Invested in capital assets, net of related debt	5,619
Unrestricted	<u>1,124,343</u>
Total net assets	<u><b>\$ 1,129,962</b></u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
University of South Carolina Research Foundation  
Governmental Discretely Presented Component Unit  
Statement of Revenues, Expenses and Changes in Net Assets  
For the year ended June 30, 2012**

**REVENUES**

Operating revenues	
Federal grants and contracts	\$ 92,491,844
Nongovernmental grants and contracts	74,808,287
Management fees and recoveries	20,128,812
Royalty income	59,379
Rental income	74,700
Other operating revenues	<u>280,509</u>
Total operating revenues	<u>187,843,531</u>

**EXPENSES**

Operating expenses	
Salaries and benefits	1,348,928
Services and supplies	1,266,107
Research and development direct costs	<u>185,167,243</u>
Total operating expenses	<u>187,782,278</u>
Operating income	<u>61,253</u>

**NONOPERATING REVENUES (EXPENSES)**

Grants to the University of South Carolina	(412,422)
Interest income	<u>12,378</u>
Net nonoperating expenses	<u>(400,044)</u>
Change in net assets	(338,791)
Net assets at beginning of year	<u>1,468,753</u>
Net assets at end of year	<u><u>\$ 1,129,962</u></u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Condensed Statements of Financial Position**

	June 30, 2012				December 31, 2011	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,423,023	\$ 5,734,473	\$ 3,566,529	\$ 2,461,321	\$ 623,849	\$ 13,809,195
Investments	23,601,044	246,338,306	37,639,397	4,357,966	-	311,936,713
Real estate held for investment	30,631,279	1,560,411	-	-	-	32,191,690
Assets held in trust	-	62,021,198	-	-	-	62,021,198
Accounts receivable	299,253	2,400,696	838,168	523,657	-	4,061,774
Contributions receivable, net	2,162,642	22,166,808	3,027,130	-	1,652,808	29,009,388
Prepaid expenses	82,144	-	12,615	188,905	-	283,664
Other assets	326,983	-	119,809	41,355	5,813,578	6,301,725
Fixed assets, net of depreciation	16,087,939	4,502	-	1,708,948	2,118,943	19,920,332
Total assets	<u>\$ 74,614,307</u>	<u>\$ 340,226,394</u>	<u>\$ 45,203,648</u>	<u>\$ 9,282,152</u>	<u>\$ 10,209,178</u>	<u>\$ 479,535,679</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 2,237,075	\$ 7,933,019	\$ 562,993	\$ 154,667	\$ 184,308	\$ 11,072,062
Lines-of-credit	16,427,279	-	-	-	-	16,427,279
Deferred revenues	-	-	111,635	300,000	500	412,135
Bonds and notes payable	24,903,600	21,840,382	-	-	-	46,743,982
Other liabilities	18,303	6,018,238	-	-	-	6,036,541
Total liabilities	<u>43,586,257</u>	<u>35,791,639</u>	<u>674,628</u>	<u>454,667</u>	<u>184,808</u>	<u>80,691,999</u>
<b>NET ASSETS</b>						
Unrestricted	7,743,150	26,290,509	4,772,449	6,820,176	1,357,431	46,983,715
Temporarily restricted	20,354,894	104,649,861	16,536,986	2,007,309	1,933,081	145,482,131
Permanently restricted	3,365,928	173,494,385	23,219,585	-	6,733,858	206,813,756
Noncontrolling interest	(435,922)	-	-	-	-	(435,922)
Total net assets	<u>31,028,050</u>	<u>304,434,755</u>	<u>44,529,020</u>	<u>8,827,485</u>	<u>10,024,370</u>	<u>398,843,680</u>
Total liabilities and net assets	<u>\$ 74,614,307</u>	<u>\$ 340,226,394</u>	<u>\$ 45,203,648</u>	<u>\$ 9,282,152</u>	<u>\$ 10,209,178</u>	<u>\$ 479,535,679</u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Condensed Statements of Activities**

	For the years ended					Total
	June 30, 2012			December 31, 2011		
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>						
Revenues, gains and other support						
Contributions	\$ 72,228	\$ 13,294,661	\$ 415,951	\$ 1,871,803	\$ 58,035	\$ 15,712,678
Investment returns (losses)	(312,834)	974,549	2,528	12,925	(8,968)	668,200
Earned income	3,129,321	-	1,630,804	637,342	12,682	5,410,149
Other	671,156	920,990	-	-	-	1,592,146
Net assets released from restrictions:						
Transfers	-	-	(610,393)	(436,066)	711,198	(335,261)
Reclassification based on law change	-	-	6,879	-	22,533	29,412
Satisfaction of program restrictions	1,607,901	3,362,073	7,162,530	-	738,580	12,871,084
Expiration of time restrictions	-	1,006,673	-	-	-	1,006,673
<b>Total revenues, gains and other support</b>	<b>5,167,772</b>	<b>19,558,946</b>	<b>8,608,299</b>	<b>2,086,004</b>	<b>1,534,060</b>	<b>36,955,081</b>
Expenses						
Scholarships and student assistance	-	9,468,091	770,701	132,500	128,185	10,499,477
Program services	3,731,810	12,790,677	7,798,395	1,731,944	162,595	26,215,421
Supporting services	3,522,552	3,166,205	275,688	886,844	176,931	8,028,220
Other expenses	-	-	1,000,000	-	-	1,000,000
<b>Total expenses</b>	<b>7,254,362</b>	<b>25,424,973</b>	<b>9,844,784</b>	<b>2,751,288</b>	<b>467,711</b>	<b>45,743,118</b>
<b>Change in unrestricted net assets</b>	<b>(2,086,590)</b>	<b>(5,866,027)</b>	<b>(1,236,485)</b>	<b>(665,284)</b>	<b>1,066,349</b>	<b>(8,788,037)</b>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Condensed Statements of Activities**

	For the years ended					Total
	June 30, 2012			December 31, 2011		
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>						
Contributions	1,543,325	14,423,119	4,322,203	74,248	280,577	20,643,472
Investment returns (losses)	(11,073)	(1,309,704)	(160,692)	-	(100)	(1,481,569)
Other	-	429	-	239,930	(30,000)	210,359
Net assets released from restrictions:						
Transfers	-	-	226,604	436,066	(15,838)	646,832
Reclassification based on law change	-	-	(6,879)	-	(22,533)	(29,412)
Satisfaction of program restrictions	(1,607,901)	(3,362,073)	(7,162,530)	-	(738,580)	(12,871,084)
Expiration of time restrictions	-	(3,731,786)	-	-	-	(3,731,786)
Change in temporarily restricted net assets	<u>(75,649)</u>	<u>6,019,985</u>	<u>(2,781,294)</u>	<u>750,244</u>	<u>(526,474)</u>	<u>3,386,812</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>						
Contributions	-	4,840,399	947,322	-	120,175	5,907,896
Investment returns (losses)	-	-	-	-	(131,890)	(131,890)
Net assets released from restrictions:						
Transfers	-	-	383,789	-	(695,360)	(311,571)
Expiration of time restrictions	-	2,725,113	-	-	-	2,725,113
Change in permanently restricted net assets	<u>-</u>	<u>7,565,512</u>	<u>1,331,111</u>	<u>-</u>	<u>(707,075)</u>	<u>8,189,548</u>
Change in net assets	(2,162,239)	7,719,470	(2,686,668)	84,960	(167,200)	2,788,323
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>33,190,289</u>	<u>296,715,285</u>	<u>47,215,688</u>	<u>8,742,525</u>	<u>10,191,570</u>	<u>396,055,357</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 31,028,050</u>	<u>\$ 304,434,755</u>	<u>\$ 44,529,020</u>	<u>\$ 8,827,485</u>	<u>\$ 10,024,370</u>	<u>\$ 398,843,680</u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations*** - The University of South Carolina - Columbia and Regionals is composed of the Columbia campus, including the Columbia School of Medicine and the recently added Greenville School of Medicine, as well as the Lancaster, Salkehatchie, Sumter and Union campuses (collectively referred to as the Campuses). The Campuses are all State-supported, coeducational institutions of higher education. The Campuses' primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

***Reporting Entity*** - The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Campuses and its blended component unit as the primary government and other related entities as discretely presented component units.

The Campuses are part of the University of South Carolina (the University) system. The University is a department of the State of South Carolina. It is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is a blended component unit of the University. The Trust is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine.

The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The bylaws provide that no one shall serve on the Board of Directors for the Trust without prior approval by the Dean of the School of Medicine and the Board of Trustees of the University of South Carolina. In addition, all actions of the Board of Directors for the Trust must be approved by the Dean of the School of Medicine who reports to the University President and the University Board of Trustees. Since the members of the Board of Directors of the Trust are employees or appointed by employees of the University and all actions of the Board of Directors of the Trust must be approved by the University Board of Trustees, the governing body of the Trust is substantively the same as the University Board of Trustees.

December 31 is the year-end date for the Trust and complete financial statements of the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202.

The Campuses' discretely presented component units are discussed in Note 11.

***Financial Statements*** - The financial statement presentation for the Campuses meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campuses' net assets, revenues, expenses and changes in net assets and cash flows.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**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 expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and noncurrent and depreciation expense. Actual results could differ from those estimates.

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

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

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Campuses consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

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. The Campuses report deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campuses' special deposit accounts is posted at the end of each month based on the percentage of the Campuses' 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 of ownership in the pool.

**Investments** - The Campuses account for their investments at fair value in accordance with GASB Codification Section 150, *Investments*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

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

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

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***Noncurrent Cash and Investments*** - Noncurrent cash and investments primarily consist of permanently endowed funds, debt service reserve funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 55 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2012 was \$2,246,729.

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

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

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

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

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Net Assets** - The Campuses' net assets are classified as follows:

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

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

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

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

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

**Income Taxes** - The University is a department of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campuses may be subject to taxation as unrelated business income. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

**Classification of Revenues** - The Campuses have classified their revenues as either operating or nonoperating revenues according to the following criteria:

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

These revenues include:

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

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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

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

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Management believes that the Campuses' rebatable arbitrage liability at June 30, 2012 is \$34,000.

***Donor-Restricted Endowments*** - Endowments are subject to restrictions requiring that the principal be invested and that only the income be used for specific purposes. If a donor has not provided specific timing instructions, state law permits the Board of Trustees to authorize for expenditure the endowment's net appreciation. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. The University has a total return policy for authorizing and spending endowment income.

At June 30, 2012, \$11,211,567 of the amount reported as *restricted net assets, expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS**

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

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

<b>Statement of Net Assets</b>		<b>Notes</b>	
Cash and cash equivalents (current)	<u>\$ 349,605,332</u>	Cash on hand	\$ 287,724
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	603,358,032
Debt service	11,844,775	Other deposits	27,642
Scholarship, research, instruction, and other	24,665,213	Blended component unit deposits	14,083,388
University administered loans	228,108	Investments held by State Treasurer	2,145,267
Capital projects	<u>154,053,539</u>	Other Investments	2,170,037
	<u>190,791,635</u>	Blended component unit	
Restricted cash and cash equivalents (noncurrent):		investments	<u>6,979,482</u>
Endowments	62,673,183		<u>\$ 629,051,572</u>
Federal student loans	2,518,907		
Debt service reserve	<u>12,167,729</u>		
	<u>77,359,819</u>		
Investments (current)	6,979,482		
Investments (noncurrent)	<u>4,315,304</u>		
	<u>\$ 629,051,572</u>		

**Deposits Held by State Treasurer** - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

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

**Other Deposits** - The Campuses' other deposits at year-end were entirely covered by federal depository insurance or were fully collateralized by securities held by the pledging bank's trust department.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS, Continued**

***Investments Held by State Treasurer and Other Investments*** - The Campuses' investments include common stock held by the State Treasurer for the Campuses.

The Campuses have other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

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

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

Other investments totaling \$1,978,037 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name. The net change in unrealized depreciation of investments for the current fiscal year was \$688,365.

***Blended Component Unit Deposits*** - The Trust's general ledger cash and cash equivalents balance includes cash on deposit with financial institutions of \$14,083,388. At December 31, 2011, the Trust's bank balances had demand deposits and sweep accounts totaling \$16,745,668. Of these amounts, approximately \$14,972,000 exceeded the limits of federal depository insurance (FDIC).

Of the amount exceeding federal depository insurance limits, approximately \$14,675,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement. Management does not believe that significant credit risk is associated with its banking relationships.

***Blended Component Unit Investments*** - Investments of the Trust consist of long-term certificates of deposit, equity and debt securities, and mutual funds. Investments are carried at fair value.

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 1,993,202	\$ 2,155,629
Mutual funds	2,886,032	3,010,020
Money market funds	153,319	153,319
Certificates of deposits	313,051	324,543
Other debt instruments	<u>1,293,879</u>	<u>1,335,971</u>
	<u>\$ 6,639,483</u>	<u>\$ 6,979,482</u>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS, Continued**

The net change in unrealized depreciation of investments for the current fiscal year was \$119,303.

Of the total cash and cash equivalents for the Trust, \$141,668 was held in escrow by the Series 2000 Bond trustee for the purpose of making the required annual principal payment on September 1, 2012.

The difference in reported book balance and the bank for deposits is comprised of in-transit reconciliation items at fiscal year end.

Common stocks and mutual funds are held by an agent of the Trust in the Trust's name.

**NOTE 3 - RECEIVABLES**

***Accounts Receivable*** - Accounts receivable consisted of the following:

Students and sponsors	\$ 12,118,757
Auxiliary enterprises	3,990,158
Federal grants and contracts	28,344,397
State grants and contracts	276,726
Local grants and contracts	48,709
Non-governmental grants and contracts	4,510,536
Accrued interest	5,154,798
Blended component unit	<u>5,791,633</u>
	60,235,714
Less allowance for doubtful accounts	<u>(1,269,353)</u>
Accounts receivable, net	<b><u>\$ 58,966,361</u></b>

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

***Patients Accounts Receivable*** - The Trust, through its affiliation with a hospital, provides medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

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

Patients accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 4,826,000
Less estimated uncollectible charges	<u>(1,283,000)</u>
Patients accounts receivable, net	<b><u>\$ 3,543,000</u></b>

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

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 3 - RECEIVABLES, Continued**

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

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campuses ceased to participate in the programs.

As the Campuses determine that loans are uncollectible, the loans are assigned to the federal agency administering the loan programs.

***Capital Improvement Bonds, Infrastructure Bonds and Capital Reserve Fund Appropriation Receivable*** - The capital improvement bonds, infrastructure bonds and capital reserve fund appropriation receivable represents outstanding bond fund proceeds that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, state university infrastructure bonds and capital reserve fund appropriation bonds to fund improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

The Campuses have \$11,820,508 of outstanding state capital improvement bond authorization, \$430,551 of outstanding research infrastructure bond authorization, \$6,222 of outstanding state university infrastructure bond authorization and \$4,695,695 of capital reserve fund appropriation. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

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

The principal balance of \$19,638,910 and the related cumulative accrued interest receivable of \$3,364,171 respectively are included in Notes Receivable and Accounts Receivable, net. Interest payments of \$1,160,090 were received from the Foundation in fiscal year 2012.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 4 - CAPITAL ASSETS**

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land and improvements	\$ 74,138,054	\$ 3,443,671	\$ -	\$ 77,581,725
Construction in progress	53,986,467	75,626,570	39,162,632	90,450,405
Works of art and historical treasures	<u>19,166,626</u>	<u>445,258</u>	<u>-</u>	<u>19,611,884</u>
Total capital assets not being depreciated	<u>147,291,147</u>	<u>79,515,499</u>	<u>39,162,632</u>	<u>187,644,014</u>
Other capital assets				
Land improvements	58,212,218	5,647,643	-	63,859,861
Buildings and improvements	1,074,323,275	37,029,238	120,002	1,111,232,511
Machinery, equipment and other	148,873,423	9,804,964	2,326,916	156,351,471
Vehicles	10,571,651	1,230,694	604,737	11,197,608
Intangibles	4,071,288	159,962	-	4,231,250
Blended component unit				
Buildings and improvements	17,638,438	114,121	-	17,752,559
Medical and office equipment	<u>6,363,922</u>	<u>411,041</u>	<u>-</u>	<u>6,774,963</u>
Total capital assets at historical cost	<u>1,320,054,215</u>	<u>54,397,663</u>	<u>3,051,655</u>	<u>1,371,400,223</u>
Less accumulated depreciation for				
Land improvements	12,682,183	2,445,093	-	15,127,276
Buildings and improvements	423,785,626	29,574,453	74,682	453,285,397
Machinery, equipment and other	110,608,546	10,423,730	1,808,982	119,223,294
Vehicles	8,455,895	876,309	597,174	8,735,030
Intangibles	3,213,900	319,169	-	3,533,069
Blended component unit				
Buildings and improvements	6,499,594	536,936	-	7,036,530
Medical and office equipment	<u>5,021,812</u>	<u>483,348</u>	<u>-</u>	<u>5,505,160</u>
Total accumulated depreciation	<u>570,267,556</u>	<u>44,659,038</u>	<u>2,480,838</u>	<u>612,445,756</u>
Other capital assets, net	<u>749,786,659</u>	<u>9,738,625</u>	<u>570,817</u>	<u>758,954,467</u>
Capital assets, net	<u>\$ 897,077,806</u>	<u>\$ 89,254,124</u>	<u>\$ 39,733,449</u>	<u>\$ 946,598,481</u>

**NOTE 5 - PENSION PLANS**

The Retirement Division of the State Budget and Control Board maintains five 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 five pension plans are included in the CAFR of the State of South Carolina.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

***South Carolina Retirement System*** - The majority of employees of the Campuses 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.

During fiscal year 2012, employees participating in the SCRS were required to contribute 6.5 percent of all compensation. The employer contribution rate was 13.685 percent which included a 4.3 percent surcharge to fund retiree health and dental insurance coverage. The Campuses' actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2012, 2011, and 2010, were \$19,328,000, \$18,614,000 and \$18,523,000, respectively, and equaled the required contributions of 9.385 percent (excluding the surcharge) for each year. Also, the Campuses paid employer group-life insurance contributions of \$309,000 in the current fiscal year at the rate of .15 percent of compensation.

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

During fiscal year 2012, employees participating in the PORS were required to contribute 6.5 percent of all compensation. The employer contribution rate was 15.663 percent of all compensation which included the 4.3 percent surcharge. The Campuses' actual contributions to the PORS for the years ending June 30, 2012, 2011, and 2010 were \$469,000, \$415,000 and \$382,000, respectively, and equaled the required contributions of 11.363 percent (excluding the surcharge) for each year. Also, the Campuses paid employer group-life insurance contributions of \$8,200 and accidental death insurance contributions of \$8,200 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Optional Retirement Program*** - 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 available to all employees who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must waive SCRS membership within their first thirty days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.385 percent plus the retiree surcharge of 4.3 percent from the employer in fiscal year 2012. Employees are required to contribute 6.5 percent of all compensation.

Certain of the Campuses' employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$14,952,000 (excluding the surcharge) from the Campuses as employer and \$10,404,000 from its employees as plan members. In fiscal year 2012, the Campuses paid \$239,000 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

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

***Teacher and Employee Retention Incentive*** - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Participants who entered the TERI program prior to July 1, 2005 do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Participants who entered the TERI program as of July 1, 2005 or after are required to make SCRS contributions but do not earn service credit, and are ineligible to receive disability retirement benefits.

***Blended Component Unit*** - The Trust provides a defined contribution plan covering all faculty participants in the Trust. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the year ended December 31, 2011 amounted to \$1,664,000 and are included as a component of personal services and related expenses.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

**Plan Description** - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campuses contribute to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100 percent employer funding and fifteen through twenty-four years of service for 50 percent employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

**Funding Policies** - Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.3 percent of annual covered payroll for 2012. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$15,883,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2012. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.22 for the fiscal year ended June 30, 2012.

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

**NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS**

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

The Campuses participate in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, would not be material.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS, Continued**

The Campuses had outstanding commitments under construction contracts of \$45,339,671 for capital and \$58,209,633 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

**NOTE 8 - LEASE OBLIGATIONS**

The future minimum lease payments for noncancelable operating leases are as follows:

***Real Property Operating Leases***

2013	\$ 1,648,235
2014	1,493,364
2015	1,477,405
2016	557,604
2017	<u>31,849</u>
Total minimum lease payments	<u><b>\$ 5,208,457</b></u>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2013 - 2017. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$2,164,621 for fiscal year 2012. Of this amount, \$124,748 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$1,013,316 for office copier contingent rentals on a cost per copy basis.

The Campuses also have a 35 year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the entire term. As of June 30, 2012, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,500,000 with \$100,000 reflected as a current asset.

The Campuses also have a 36 month operating lease agreement for a storefront at 258 King Street in Charleston for \$6,370 per month. In accordance with the terms of the lease, in fiscal year 2012, the Campuses paid \$229,320, representing rent due for the entire term. As of June 30, 2012, the remaining unamortized prepaid balance related to the parking lease agreement was \$222,950 with \$146,510 reflected as a current asset.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 8 - LEASE OBLIGATIONS, Continued**

**Capital Leases** - Buildings held by the Campuses under capital leases as of June 30, 2012:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 18,038,502	\$ 1,800,828	\$ 16,237,674

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

2013	\$ 1,401,185
2014	1,412,413
2015	1,382,878
2016	1,393,045
2017	5,260,525
2018-2022	4,875,575
2023-2027	4,961,803
2028-2031	<u>3,675,228</u>
Total minimum lease payments	24,362,652
Less amount representing interest	<u>(7,953,510)</u>
Present value of minimum lease payments	<b><u>\$ 16,409,142</u></b>

Capital lease obligations consists of :

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 with interest rates from 5.085% to 6.815%. This agreement expires in March 2031.

**\$ 16,409,142**

Certain departments of the Trust have acquired medical and office equipment under capital lease agreements. The value at lease inception and accumulated depreciation for equipment recorded under capital leases was \$705,033 and \$354,926, respectively, at December 31, 2011. For the year ended December 31, 2011, total interest expense paid for capital leases was \$41,625.

The future minimum lease obligations and the net present value of the minimum lease payments for the Trust are as follows:

2012	\$ 174,132
2013	171,075
2014	130,167
2015	<u>858</u>
Total minimum lease payments	476,232
Less amount representing interest	<u>(50,140)</u>
Present value of minimum lease payments	<b><u>\$ 426,092</u></b>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE**

**Bonds Payable** - Bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
<b>State Institution Bonds</b>			
Series 2002E	3.5%	09/01/12	\$ 715,000
Series 2003I	3.75%	10/01/13	645,000
Series 2006B	3.25% to 5.25%	04/01/26	30,725,000
Series 2011A Refunding	2.25% to 5.0%	03/01/22	18,455,000
Series 2011E	2.25% to 5.0%	03/01/31	19,715,000
Series 2012A Refunding	3.0% to 5.0%	04/01/23	<u>20,156,000</u>
<b>Total State Institution Bonds</b>			<u>90,411,000</u>
<b>Revenue Bonds</b>			
Series 2003B	3.5%	05/01/13	260,000
Series 2004A	5.375%	05/01/13	680,000
Series 2005A	3.125% to 5.0%	05/01/35	10,715,000
Series 2005A Refunding	4.0% to 5.0%	06/01/30	35,160,000
Series 2008A	3.25% to 5.25%	06/01/38	45,685,000
Series 2008A Athletic	4.0% to 5.5%	05/01/38	27,395,000
Series 2008B Athletic	5.4%	05/01/13	495,000
Series 2010A	3.0% to 5.0%	06/01/40	27,485,000
Series 2010A Athletic	4.0% to 5.0%	05/01/40	64,065,000
Series 2010B Refunding Athletic	3.0% to 5.0%	05/01/27	12,565,000
Series 2012A	3.0% to 5.0%	05/01/35	61,945,000
Series 2012A Refunding	2.0% to 5.0%	05/01/34	26,025,000
Series 2012A Athletic	2.0% to 4.0%	05/01/42	13,580,000
Series 2012B Refunding Athletic	3.5%	05/01/32	<u>6,350,000</u>
<b>Total Revenue Bonds</b>			<u>332,405,000</u>
<b>Blended Component Unit Revenue Bonds</b>			
Series 2000			<u>5,950,000</u>
<b>Total Bonds Payable</b>			<u><b>\$ 428,766,000</b></u>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campuses' debt service limit on bond indebtedness for the preceding year were \$19,296,403 which results in a legal annual debt service at June 30, 2012 of \$17,366,762. The annual debt service payments for the fiscal year were \$10,903,125. Tuition revenue pledged in fiscal year 2012 was \$21,801,966 for state institution bonds.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2012 were \$11,682,912 from sales and services of auxiliary enterprises.

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2012 consisted of \$1,550,885 in special student fees, \$1,708,602 in special admission fees and \$4,396,602 in athletic department revenues included in sales and services of auxiliary enterprises.

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

The Campuses believe they are in compliance with all related bond covenants of their issued debt.

On June 14, 2012, the Campuses issued \$61,945,000 in revenue bonds for the construction of the new Moore School of Business building.

On June 1, 2012, the Campuses issued \$13,580,000 in athletic facilities revenue bonds for the development of football parking and construction of the softball stadium.

On June 1, 2012, the Campuses issued \$6,350,000 in athletic facilities revenue refunding bonds to fully advance refund the Series 2002A revenue bonds maturing from May 1, 2028 to May 1, 2032 and to be called on July 14, 2012. The refunding transaction resulted in a loss on refunding of \$60,681, an aggregate debt payment reduction of \$1,071,796 over the next twenty years and an economic gain of \$850,590.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

On May 1, 2012, the Campuses issued \$20,156,000 of Series 2012A State institution refunding bonds to totally advance refund the Series 1996B and to partially refund the Series 2002E and 2003I State institution bonds.

The following table summarizes the activity of the 2012A State Institution Bond Refunding:

	<u>Series 1996B</u>	<u>Series 2002E</u>	<u>Series 2003I</u>	<u>Total</u>
Maturities refunded	04/01/2013 to 04/01/2016	09/01/2012 to 09/01/2022	10/01/2014 to 10/01/2023	
Call date	05/01/12	09/01/12	10/01/13	
Principal issued	\$ 7,981,000	\$ 8,225,000	\$ 3,950,000	\$ 20,156,000
Principal refunded	8,695,000	9,420,000	4,335,000	22,450,000
Loss on refunding	36,229	294,522	268,490	599,241
Aggregate debt payment reduction	897,603	1,291,975	499,581	2,689,159
Economic gain	871,275	1,263,135	487,234	2,621,644

On May 1, 2012, the Campuses issued \$26,025,000 of Series 2012A revenue refunding bonds to partially advance refund the Series 2003B and Series 2004A revenue bonds.

The following table summarizes the activity of the 2012A revenue bond refunding:

	<u>Series 2003B</u>	<u>Series 2004A</u>	<u>Total</u>
Maturities refunded	05/01/2014 to 05/01/2023	05/01/2014 to 05/01/2034	
Call date	05/01/13	05/01/13	
Principal issued	\$ 2,855,000	\$ 23,170,000	\$ 26,025,000
Principal refunded	3,175,000	25,475,000	28,650,000
Loss on refunding	120,208	1,189,181	1,309,389
Aggregate debt payment reduction	328,877	4,048,088	4,376,965
Economic gain	277,804	3,039,801	3,317,605

The total loss on refunding for the 2012A State institution and revenue refunding bonds and the 2012B Athletic Revenue Refunding Bond was \$1,969,311. \$1,933,082 of the total loss on refunding was deferred while the amount related to the Series 1996B State Institution Bond refunding of \$36,229 was written off as interest expense in the current year.

The refunding bonds were used to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments related to the \$57,085,000 of University bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

The blended component unit revenue bonds are limited obligations of the Trust. The terms of indebtedness provide that bondholders may redeem, or put, the bonds to the remarketing agent on dates that approximate a monthly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a renewing letter of credit provided by Wells Fargo. In prior years, the letter of credit purchased from Wells Fargo was a 13 month, automatically renewing instrument. Accordingly, at all times, the earliest possible date the Trust would have to repay the debt was 13 months. This feature allowed the Trust to classify the debt schedule to be repaid outside the next 12 month period as a non-current liability. During 2010, Wells Fargo asked for a change to the provisions of the letter of credit. Under the new provisions, the letter of credit does not automatically renew and the earliest the Trust may request a renewal is six months in advance of renewal. As a result, the Trust can no longer classify any of the Series 2000 Bonds as noncurrent. For the year ended December 31, 2011, all Series 2000 Bonds are classified as a current liability even though scheduled redemptions remain through 2025.

In connection with the issuance of the bonds, the Campuses have pledged that for as long as any bonds remain outstanding, the Campuses will not terminate the Trust and will cause it to be operated so that all interest and principal on the bonds will be paid. As additional security to Wells Fargo, the Trust has granted Wells Fargo a security interest in substantially all real and personal property of the Trust, in the Trust's rights to medical office building rents, and in its land lease with the Campuses.

The terms of the indenture of Trust (the "Indenture") relating to the issuance of the bonds provide that they bear interest at a variable rate, not to exceed 12 percent. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2011, the average interest rate on the bonds was .19 percent.

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

2012	\$ 425,000
2013	425,000
2014	425,000
2015	425,000
2016	425,000
2017-2021	2,125,000
2022-2025	<u>1,700,000</u>
	<b><u>\$ 5,950,000</u></b>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>State Institution Bonds</b>			
2013	\$ 6,880,000	\$ 3,774,060	\$ 10,654,060
2014	6,999,000	3,612,452	10,611,452
2015	7,241,000	3,341,853	10,582,853
2016	7,576,000	3,024,442	10,600,442
2017	5,602,000	2,710,278	8,312,278
2018-2022	32,026,000	9,389,319	41,415,319
2023-2027	18,462,000	3,139,697	21,601,697
2028-2031	<u>5,625,000</u>	<u>713,200</u>	<u>6,338,200</u>
<b>Total</b>	<b><u>\$ 90,411,000</u></b>	<b><u>\$ 29,705,301</u></b>	<b><u>\$ 120,116,301</u></b>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Revenue Bonds</b>			
2013	\$ 7,270,000	\$ 15,293,349	\$ 22,563,349
2014	7,520,000	15,318,338	22,838,338
2015	7,845,000	15,007,537	22,852,537
2016	9,495,000	14,674,388	24,169,388
2017	9,885,000	14,290,712	24,175,712
2018-2022	56,200,000	64,688,206	120,888,206
2023-2027	68,620,000	50,698,119	119,318,119
2028-2032	75,090,000	33,734,838	108,824,838
2033-2037	65,590,000	15,321,425	80,911,425
2038-2042	<u>24,890,000</u>	<u>2,365,350</u>	<u>27,255,350</u>
<b>Total</b>	<b><u>\$ 332,405,000</u></b>	<b><u>\$ 241,392,262</u></b>	<b><u>\$ 573,797,262</u></b>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

**Notes Payable** - Notes payable consisted of the following:

Note payable to acquire energy savings lighting retrofit, dated December 2004, payable in annual installments of \$130,719, matures December 2012, fixed interest rate of 1.00%.	\$ 129,418
Note payable secured by printing press equipment, dated September 2007, payable in semi-annual installments of \$43,008, matures September 2014, fixed interest rate of 3.6%.	203,886
Note payable secured by stadium lighting, dated July 2008, payable in annual installments of \$117,743, matures July 2012, fixed interest rate of 3.61%.	113,640
Note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of \$31,458, matures December 2015, imputed fixed interest rate of 2.15%.	119,461
Note payable for energy efficiency projects, dated October 2010, payable in annual installments of \$234,102, at no interest, matures October 2013.	413,111
Note payable for energy efficiency projects, dated June 2010, payable in annual installments of \$7,168, at no interest, matures June 2015.	14,337
Note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$5,831, at no interest, matures January 2015.	16,328
Note payable for energy efficiency projects, dated September 2009, payable in annual installments of \$3,289, at no interest, matures September 2014.	9,867
Note payable for energy efficiency projects, dated December 2010, payable in a single installment of \$1,331, at no interest, matures December 2012.	<u>1,331</u>
	<u><b>\$ 1,021,379</b></u>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 603,076	\$ 14,609	\$ 617,685
2014	307,103	5,699	312,802
2015	80,376	2,072	82,448
2016	<u>30,824</u>	<u>663</u>	<u>31,487</u>
<b>Total</b>	<b><u>\$ 1,021,379</u></b>	<b><u>\$ 23,043</u></b>	<b><u>\$ 1,044,422</u></b>

**NOTE 10 - LONG-TERM LIABILITIES**

Long-term liability activity was as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Bonds and notes payable and capital lease obligations					
State institution bonds	\$ 99,400,000	\$ 20,156,000	\$ 29,145,000	\$ 90,411,000	\$ 6,880,000
Revenue bonds	265,875,000	107,900,000	41,370,000	332,405,000	7,270,000
Blended component unit revenue bonds	<u>6,375,000</u>	<u>-</u>	<u>425,000</u>	<u>5,950,000</u>	<u>5,950,000</u>
Subtotal bonds payable	371,650,000	128,056,000	70,940,000	428,766,000	20,100,000
Unamortized bond premiums	13,575,048	17,514,550	619,126	30,470,472	1,664,210
Unamortized bond discounts	-	(257,207)	-	(257,207)	(12,107)
Unamortized loss on bond refunding	<u>(3,688,926)</u>	<u>(1,933,082)</u>	<u>(246,698)</u>	<u>(5,375,310)</u>	<u>(364,468)</u>
Total bonds payable	381,536,122	143,380,261	71,312,428	453,603,955	21,387,635
Notes payable	1,025,670	614,959	619,250	1,021,379	603,076
Capital lease obligations	16,889,142	-	480,000	16,409,142	500,000
Blended component unit capital lease obligations	<u>558,599</u>	<u>-</u>	<u>132,507</u>	<u>426,092</u>	<u>144,092</u>
Total bonds, notes and capital leases	<u>400,009,533</u>	<u>143,995,220</u>	<u>72,544,185</u>	<u>471,460,568</u>	<u>22,634,803</u>
Other liabilities					
Accrued compensated absences	23,996,003	15,306,649	12,396,246	26,906,406	12,646,011
Retainage payable	1,955,653	1,403,935	1,675,615	1,683,973	245,052
Deferred revenues	30,134,309	33,636,633	29,792,642	33,978,300	33,636,633
Federal loan liability	<u>16,350,188</u>	<u>-</u>	<u>181,383</u>	<u>16,168,805</u>	<u>-</u>
Total other liabilities	<u>72,436,153</u>	<u>50,347,217</u>	<u>44,045,886</u>	<u>78,737,484</u>	<u>46,527,696</u>
Total long-term liabilities	<b><u>\$ 472,445,686</u></b>	<b><u>\$ 194,342,437</u></b>	<b><u>\$ 116,590,071</u></b>	<b><u>\$ 550,198,052</u></b>	<b><u>\$ 69,162,499</u></b>

Additional information regarding bonds and notes payable is included in Note 9.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS**

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. 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 University of South Carolina Development Foundation; the Educational Foundation of the University of South Carolina - Lancaster; and the University of South Carolina Research Foundation. Because the activities and resources of these entities are for the sole benefit of the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as a non-governmental or governmental reporting entity.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the Campuses.

The University of South Carolina Educational Foundation operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fundraising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$173,494,385 or 57% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The Campuses receive funds for scholarships, reimbursement of personnel services, fringe benefits and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$23,219,585 or 52% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

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

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

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS, Continued**

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

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

Various transactions occur between the Campuses and the component units. A summary of those transactions follows:

***Funds Received from Component Units:***

USC Development Foundation	\$ 1,312,798
USC Business Partnership Foundation	595,905
USC Educational Foundation	17,693,294
Greater USC Alumni Association	408,247
Educational Foundation of USC Lancaster	222,360
USC Research Foundation	<u>106,780,375</u>
	<b><u>\$ 127,012,979</u></b>

The majority of the University of South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenue and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$26,229,890 due from the University of South Carolina Research Foundation at June 30, 2012.

***Funds Paid to Component Units***

USC Development Foundation	\$ 661,942
USC Educational Foundation	240,428
Greater USC Alumni Association	9,819
USC Research Foundation	<u>15,134</u>
	<b><u>\$ 927,323</u></b>

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 12 - RELATED PARTIES**

There are several separately chartered legal entities which do not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, to be treated as component units of the Campuses. These entities are the local higher education commissions. While they are not financially accountable to the Campuses, these organizations exist primarily to provide financial assistance and other support to the Campuses and the educational programs. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2012 include significant transactions between them and the Campuses which are as follows:

**Lancaster County Commission for Higher Education** - The Lancaster County Commission for Higher Education (the Commission) was created under Act 126 of the 1959 Session of the General Assembly of South Carolina. The Commission is composed of seven members who are appointed by the Governor on the recommendation of a majority of the Lancaster County Legislative Delegation, including the Senator. The Commission's purpose is the encouragement of higher education in Lancaster and adjacent areas and, more specifically, the establishment in Lancaster County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Lancaster County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Lancaster County designated specifically for the University of South Carolina Lancaster (USC Lancaster). During the fiscal year ended June 30, 2012, the Commission received an annual appropriation of \$1,191,270. The Commission disbursed \$703,927 to USC Lancaster for operations, maintenance and commencement expenses. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2012, the Commission had net assets of \$637,356.

**Western Carolina Higher Education Commission** - The Western Carolina Higher Education Commission (the Commission) was created under Act 270 in the 1984 Session of the General Assembly of South Carolina. The Commission is composed of ten members, two of whom are from each of the following counties: Allendale, Bamberg, Barnwell, Colleton, and Hampton. The members are appointed by the Governor upon the recommendation of a majority of the Legislative Delegations from the respective counties. The Commission's purpose is the encouragement of higher education in the respective counties and adjacent areas and, more specifically, the establishment of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Allendale, Bamberg, Barnwell, Colleton, and Hampton counties to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Salkehatchie (USC Salkehatchie) of \$64,099 for the fiscal year ended June 30, 2012. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. At June 30, 2012, the Commission had net assets of \$94,022.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 12 - RELATED PARTIES, Continued**

**The Mid-Carolina Commission for Higher Education, formerly known as Sumter County Commission for Higher Education** - The Sumter County Commission for Higher Education was created under Act 50 of the 1965 Session of the General Assembly of South Carolina. In 1996, by an act of the state legislature, the Sumter County Commission for Higher Education was restructured as the Mid-Carolina Commission for Higher Education (the Commission) representing Sumter, Lee, and Clarendon Counties. The nine commission members are appointed by the Governor upon recommendation by the respective county legislative delegations, with one each coming from Lee and Clarendon Counties, and the remaining seven members from Sumter County. The purpose of the Commission is the encouragement of higher education in Sumter County and adjacent areas and, more specifically, the establishment in Sumter County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The University of South Carolina Sumter (USC Sumter) operates the Sumter Campus under contract with the Commission at a cost of \$1 annually. During the ended June 30, 2012, the Commission made payments to USC Sumter totaling \$259,866 for the operation and maintenance of the campus. At June 30, 2012, the Commission had net assets of \$291,151.

**Union Laurens Commission for Higher Education** - The Union County Commission for Higher Education was created by Act 23 in the 1965 Session of the General Assembly of South Carolina and was repealed by Act 288 of the 1987 Session of the General Assembly of South Carolina which created the Union Laurens Commission for Higher Education (the Commission). The Commission is composed of nine members, with seven being residents of Union County and two being residents of Laurens County. The members are appointed by the Governor upon recommendation by the Union and Laurens County Legislative Delegations. The Commission is responsible for the encouragement of higher education in Union and Laurens Counties and adjacent areas and, more specifically, the establishment in Union and Laurens Counties of facilities to offer standard freshman and sophomore college courses and those other courses considered desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Union and Laurens counties of \$143,721 to accomplish these objectives. During the year ended June 30, 2012, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$292,217 for campus projects and maintenance, rental of facilities, community service and institutional support. The Commission provides its land and buildings to USC Union at no cost. USC Union provides clerical, accounting and cash management services to the Commission at no charge. At June 30, 2012, the Commission had net assets of \$2,191,114.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 13 - RISK MANAGEMENT**

The Campuses have a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

**Title 1 - Administration of Government**, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

**Title 1 - Administration of Government**: Section 1-11-147. Automobile Liability Reinsurance.

**Title 10 - Public Buildings and Property**: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

**Title 10 - Public Buildings and Property**: Section 10-7-12. Authority to purchase reinsurance.

**Title 10 - Public Buildings and Property**: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

**Title 11 - Public Finance**: Section 11-9-75. Debt Collection Procedures.

**Title 15 - Civil Remedies and Procedures**: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

**Title 38 - Insurance**: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

**Title 59 - Education**: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

**Title 59 - Education**: Section 59-67-790. Pupil Injury Fund.

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have never exceeded the Campuses' insurance coverage.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 13 - RISK MANAGEMENT, Continued**

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campuses include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, risk management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

**NOTE 14 - BIOMASS FACILITY**

In August 2004, the University entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility is to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately \$19.2 million. Since being placed in service the facility has operated intermittently and is inoperable as of the date of this report. The University and JCI have determined that the existing technology employed to operate the facility is not viable and that an alternate technology must be utilized to make the facility functional. Through June 30, 2012, the Campuses have recorded approximately \$3.8 million in accumulated depreciation resulting in a net book value for the facility of \$15.4 million.

University Administration has evaluated the facility for potential impairment. As a result of the evaluation, University Administration has stated the following: (1) alternative technologies are available to modify the facility with the ultimate result of providing steam production, (2) cost of implementing the alternative technologies would substantially be paid by JCI, and (3) JCI is contractually obligated to provide annual payments to the University in the amount of approximately \$2.1 million.

Based on these considerations, the Administration has concluded that the facility will ultimately be capable of generating future cost savings, and that these cost savings combined with the contractually obligated payments from JCI will be sufficient to preclude the University from having to record an impairment reserve against the capitalized cost of the facility.

However, an impairment reserve may be required in a future period for some or all of the facility's capitalized costs. Such a reserve is contingent upon whether anticipated cost savings and payments from JCI are realized going forward.

**UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS**  
**Notes to the Financial Statements**

**NOTE 15 - OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 188,559,917	\$ 52,332,025	\$ 25,947,777	\$ 104,511	\$ 670,768	\$ -	\$ 267,614,998
Research	58,269,596	19,369,208	36,477,149	4,431	379,993	-	114,500,377
Public service	31,298,252	7,780,507	13,613,973	7,603	270,743	-	52,971,078
Academic support	29,531,333	7,746,296	23,164,936	17,552	20,715	-	60,480,832
Student services	20,425,548	5,082,964	13,877,294	782,628	447,432	-	40,615,866
Institutional support	39,755,099	11,297,401	7,812,751	163,281	20,735	-	59,049,267
Operation and plant maintenance	26,021,422	6,479,846	20,111,567	17,169,238	2,393	-	69,784,466
Auxiliary enterprises	40,427,235	8,391,773	50,610,159	6,942,389	708,575	-	107,080,131
Scholarships and fellowships	52,369	860,879	174,337	-	14,762,037	-	15,849,622
Blended component unit	34,167,455	4,247,807	23,427,927	-	-	1,020,284	62,863,473
Depreciation	-	-	-	-	-	43,638,754	43,638,754
<b>Total operating expenses</b>	<b><u>\$ 468,508,226</u></b>	<b><u>\$ 123,588,706</u></b>	<b><u>\$ 215,217,870</u></b>	<b><u>\$ 25,191,633</u></b>	<b><u>\$ 17,283,391</u></b>	<b><u>\$ 44,659,038</u></b>	<b><u>\$ 894,448,864</u></b>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees  
University of South Carolina  
Columbia, South Carolina

We have audited the financial statements of the business-type activities and the discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses) of the University of South Carolina (the University), as of and for the year ended June 30, 2012, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated December 31, 2012. Our report was modified to include a reference to other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); the University of South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, (collectively referred to as the Foundations), as described in our report on the Campuses' financial statements. The financial statements of the Trust and the Foundations were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

Management of the Campuses is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Campuses' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Campuses' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campuses' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of management, the Board of Trustees and the Southern Association of Colleges and Schools and is not intended to be and should not be used by anyone other than these specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina  
December 31, 2012