

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2013**

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

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Independent Auditor's Report

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

Report on Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan; 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. These financial statements represent approximately 88 percent, 93 percent, and 97 percent, respectively, of the assets, net position/assets, and revenues of the Campuses' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campuses are based solely 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 from material misstatement. The financial statements of the University of South Carolina Development 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 were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, 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 report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campuses as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the accompanying table of contents 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 and other auditors 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2013, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Campuses' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina
December 2, 2013

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, 2013, with comparative information for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2013 and 2012 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. This discussion will not include the discretely presented component units, the University of South Carolina Research Foundation, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, The University of South Carolina's 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 Position; the Statement of Revenues, Expenses and Changes in Net Position; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campuses' net position (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 POSITION

The Statement of Net Position presents the assets, liabilities, and net position of the Campuses as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Campuses. The Statement of Net Position 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 Position - The difference between assets and liabilities

The Statement of Net Position 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 Position are able to determine the assets available to continue the operations of the Campuses. They are also able to determine how much the Campuses owe vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Campuses. Net position is divided into the following three major categories:

- Net investment in capital assets - Provides the institution's equity in property, plant, and equipment owned by the institution.
- Restricted net position -
 - a. Nonexpendable restricted net position consists solely of the institution's permanent endowment funds and are only available for investment purposes.
 - b. Expendable restricted net position is 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 position – Represents resources available to the institution for any lawful purpose of the institution.

Summary of Net Position

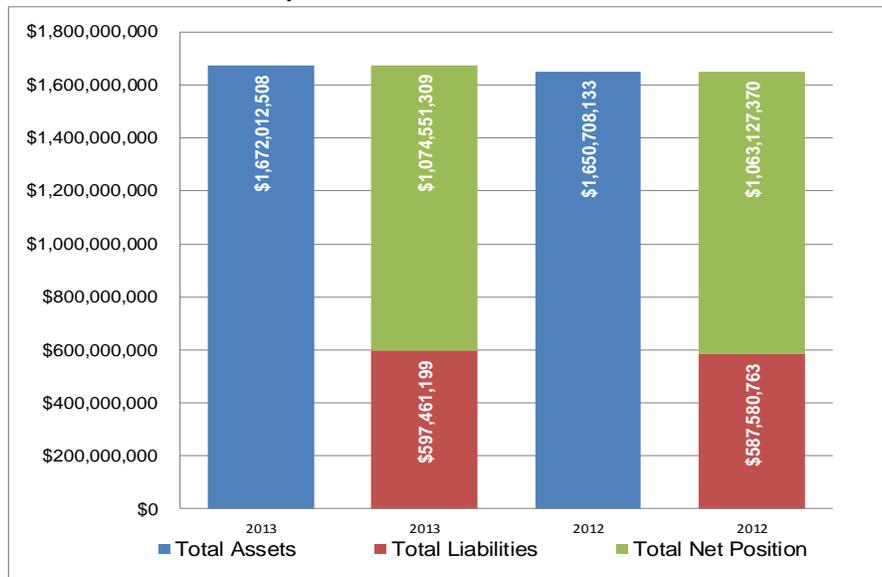
Assets	2013	2012	Increase/ (Decrease)	Percent Change
Current Assets	\$ 565,696,741	\$ 593,633,106	\$ (27,936,365)	-4.71%
Capital Assets, Net	983,659,748	934,612,649	49,047,099	5.25%
Other Noncurrent Assets	122,656,019	122,462,378	193,641	0.16%
Total Assets	1,672,012,508	1,650,708,133	21,304,375	1.29%
Liabilities				
Current Liabilities	105,449,515	107,568,950	(2,119,435)	-1.97%
Noncurrent Liabilities	492,011,684	480,011,813	11,999,871	2.50%
Total Liabilities	597,461,199	587,580,763	9,880,436	1.68%
Net Position				
Net investment in capital assets	572,691,487	567,986,277	4,705,210	0.83%
Restricted - nonexpendable	73,253,629	71,629,951	1,623,678	2.27%
Restricted - expendable	111,687,202	92,466,099	19,221,103	20.79%
Unrestricted	316,918,991	331,045,043	(14,126,052)	-4.27%
Total Net Position	\$ 1,074,551,309	\$ 1,063,127,370	\$ 11,423,939	1.07%

- Total assets of the Campuses increased by \$21.3 million. Current assets decreased \$27.9 million while capital assets increased by \$49 million. This overall increase in total assets is due to the completion of several athletic facility projects, residence hall renovations and significant upgrades to campus technology systems during fiscal year 2013. Also, the Campuses wrote off the remaining net book value of \$14 million for the Biomass Facility due to impairment.

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

- The increase in liabilities of \$9.9 million is primarily attributable to an increase in long term debt. Housing revenue bonds in the amount of \$26.3 million were issued to fund the renovation of more than 540 beds in the Women's Quad at USC Columbia. The Campuses paid \$14.2 million in principal payments on outstanding bonds during fiscal year 2013.

Assets, Liabilities and Net Position



The net position of the Campuses increased during the year by \$11.4 million. The increase is driven by the following:

- \$4.7 million increase in net investment in capital assets - Net investment in capital assets, shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets, only the debt issued to finance the Campuses' capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Net investment in capital assets, increased by \$4.7 million due to the completion of significant upgrades to campus technology systems, residence hall renovations, and several athletic facility projects. The Campuses also wrote off the remaining net book value of \$14 million in capital assets due to the impairment of the Biomass Facility.
- \$19.2 million increase in expendable restricted - Expendable restricted net position represents resources that are constrained to a particular purpose by externally imposed stipulations. These constraints may be derived from the donor of the resources or from an external entity. Also, restrictions can be imposed as a result of enabling legislation. Expendable restricted net position increased by \$19.2 million due to an increase in debt service of \$3.3 million and an increase in reserve for capital projects of \$15.9 million.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
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- \$14.1 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from the Campuses' operations. The Campuses' unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific Campuses' activities including academic and research programs, capital projects and significant upgrades to the campus technology network. During fiscal year 2013, the Campuses used unrestricted funding towards significant upgrades to campus technology systems.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the Campuses. 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 Campuses. 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.

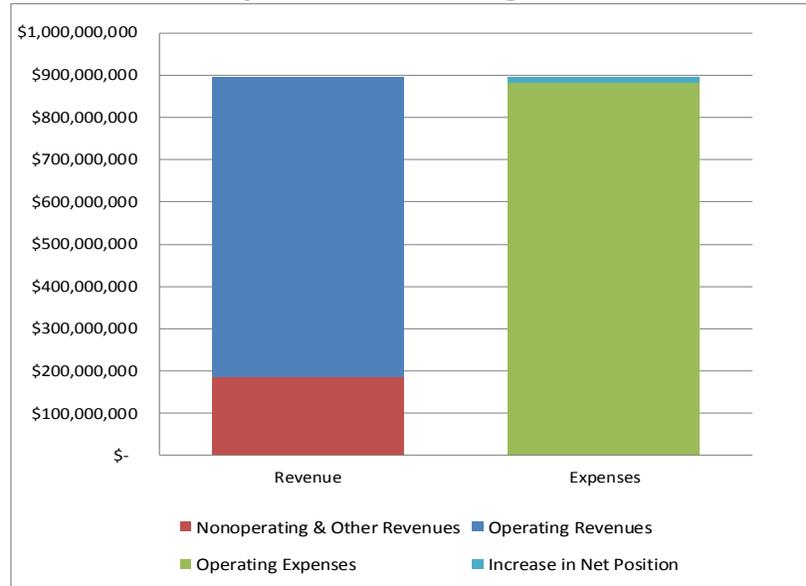
UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	\$ 330,128,717	\$ 306,096,019	\$ 24,032,698	7.85%
Federal grants and contracts	125,260,528	131,473,677	(6,213,149)	-4.73%
State grants and contracts	66,820,913	63,259,457	3,561,456	5.63%
Local grants and contracts	900,852	793,139	107,713	13.58%
Nongovernmental grants and contracts	34,598,215	38,070,586	(3,472,371)	-9.12%
Sales and services of educational and other activities	22,226,066	21,950,027	276,039	1.26%
Sales and services of auxiliary enterprises	117,513,502	114,177,803	3,335,699	2.92%
Interest collected on student loans	280,456	306,122	(25,666)	-8.38%
Other fees	5,498,967	5,563,073	(64,106)	-1.15%
Other operating revenues	4,177,609	4,183,187	(5,578)	-0.13%
Total operating revenues	<u>707,405,825</u>	<u>685,873,090</u>	<u>21,532,735</u>	<u>3.14%</u>
Operating Expenses:				
Salaries and wages	458,471,073	434,340,771	24,130,302	5.56%
Fringe benefits	132,679,679	119,340,899	13,338,780	11.18%
Services and supplies	203,252,046	191,789,943	11,462,103	5.98%
Utilities	26,837,643	25,191,633	1,646,010	6.53%
Scholarships and fellowships	16,929,182	17,283,391	(354,209)	-2.05%
Depreciation expense	45,399,193	43,638,754	1,760,439	4.03%
Total operating expenses	<u>883,568,816</u>	<u>831,585,391</u>	<u>51,983,425</u>	<u>6.25%</u>
Operating loss	(176,162,991)	(145,712,301)	(30,450,690)	20.90%
Net nonoperating revenues	<u>168,569,301</u>	<u>170,344,839</u>	<u>(1,775,538)</u>	<u>-1.04%</u>
Income (loss) before other revenues and transfers	(7,593,690)	24,632,538	(32,226,228)	-130.83%
Other revenues and transfers	<u>19,017,629</u>	<u>17,767,568</u>	<u>1,250,061</u>	<u>7.04%</u>
Increase in net position	11,423,939	42,400,106	(30,976,167)	-73.06%
Net position at beginning of year	<u>1,063,127,370</u>	<u>1,020,727,264</u>	<u>42,400,106</u>	<u>4.15%</u>
Net position at end of year	<u>\$ 1,074,551,309</u>	<u>\$ 1,063,127,370</u>	<u>\$ 11,423,939</u>	<u>1.07%</u>

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

Revenues, Expenses and Changes in Net Position



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

- A net \$24 million increase in student tuition and fees and a \$3.3 million increase in sales and services of auxiliary enterprises along with a \$6 million decrease in grants and contracts were largely responsible for the overall \$21.5 million increase in operating revenues. Student tuition and fee revenue, net of the scholarship allowance, increased primarily due to a 3.14% tuition increase for the Campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 2.5% in full time equivalent students. In 2013, the Campuses added a second medical school campus and enrolled 53 students that generated \$2 million in new tuition and fees. Sales and services of auxiliary enterprises are primarily driven by athletics, including increased conference distribution and trademark and licensing revenue. Contracts and grants decreased due to reduced federal funding for direct loans and Federal Sequestration.
- Operating expenses increased \$52 million, 6.25% over the prior year. The majority of the increase, approximately \$37.5 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment as well as the 3% state pay package and increases in retirement contribution and employer health insurance. Services and supplies increased \$11.5 million due to inflationary and enrollment increases and significant upgrades to campus technology systems. Depreciation expense increased \$1.8 million due to the completion of several athletic facility projects and residence hall renovations.

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 Campuses during the year. The statement is divided into the following five parts.

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

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 a new softball stadium.

The Campuses' indebtedness consists of bonds payable of \$461 million and notes payable of \$240,292. During the current year, \$26.3 million in revenue bonds were issued to fund various capital projects.

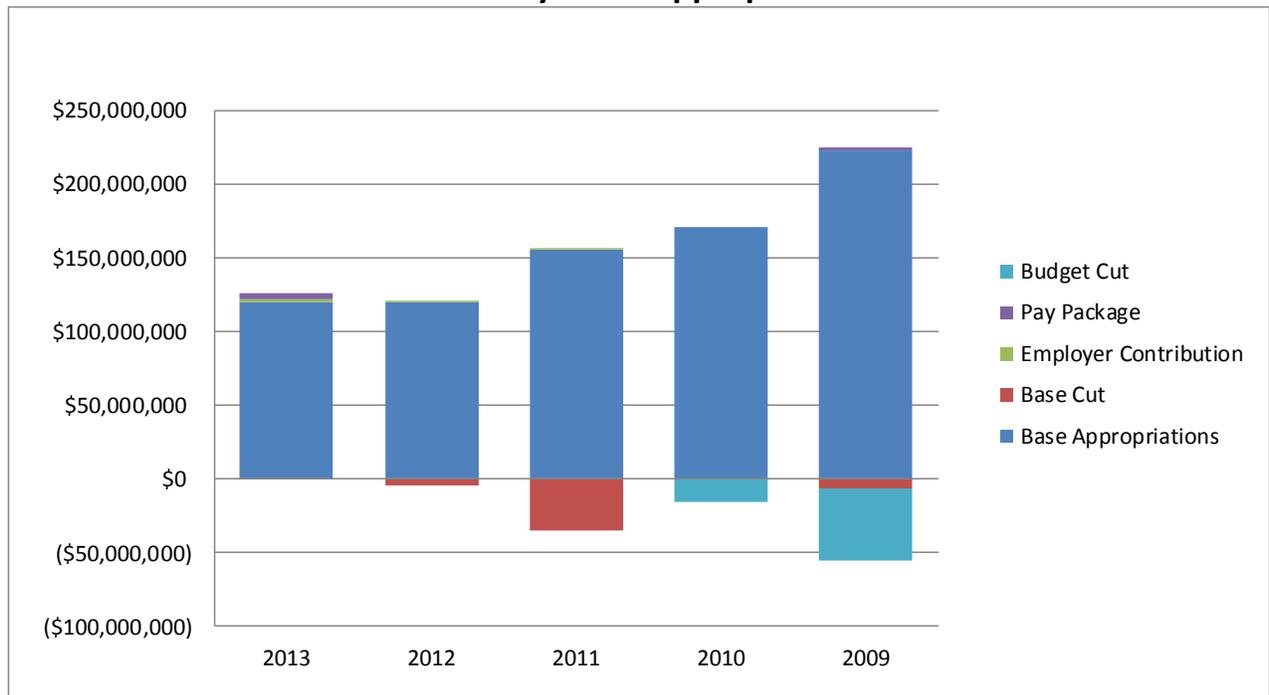
ECONOMIC OUTLOOK

The economic position of the Campuses continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The Campuses received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases, as well as new funds for a new targeted student program, Palmetto College, a virtual college that will provide higher education opportunities for students from all economic and geographic regions to earn a bachelor's degree near or from their own homes. The State has invested \$5 million annually in this important initiative

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

The State finished the 2013 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. In addition, because of surplus revenues, \$68.3 million is available for transfer to the State's contingency reserve fund. The Campuses are a beneficiary of the fourth straight year of state surpluses, with nearly \$5.2 million in non-recurring state funds available for deferred maintenance projects in 2014. The University also receives new, non-recurring State funds allocated for the 2014 year including funding for the On Your Time Graduation Initiative, a program that recognizes that the traditional university academic calendar has become antiquated and inflexible for today's student, many times impeding timely degree completion, costing students more in tuition and student loans, and delaying employment in South Carolina's economy. By redefining the traditional university academic calendar, providing flexibility and maximizing assets, the University will provide a model for colleges and universities in the State and beyond her borders. Additionally, the Regional campuses receive new, non-recurring state funds of \$424,000 to address the base state funding per student inequities.

University State Appropriations



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

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 are 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 tuitions for three other public institutions in the State exceed the tuition rate for the USC Columbia campus, while the tuition for the four Regional Campuses is greater than the State's technical colleges. Demand for enrollment and interest in the University remains strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2013 of more than 5,034 students. This entering class is also the most academically talented in the University's history with an average SAT score of 1206. The University continues to cultivate both student quality and access through the development of innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its second year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2013 semester 168 new students are enrolled in the Gamecock Gateway and 103 of students in the pilot year are now fully enrolled at USC Columbia.

University fundraising has increased by more than 38% in the last five years during the largest capital campaign in its history with a \$1 billion goal. As of June 30, 2013 the University system, including the comprehensive, senior institutions, has raised \$756.5 million with two years remaining. Research grant awards were \$220.2 million in the 2013 fiscal year, an expected reduction of 8% from the prior year due to Federal Sequestration.

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Net Position
June 30, 2013

ASSETS

Current assets:	
Cash and cash equivalents	\$ 326,777,296
Restricted - cash and cash equivalents	172,851,687
Accounts receivable, net	49,942,644
Student loans receivable, current	3,228
Capital improvement bonds proceeds receivable	2,047,998
Inventories	1,775,599
Prepaid items	4,934,023
Funds due from others	7,364,266
	<u>565,696,741</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	87,888,949
Investments	4,219,062
Prepaid items	2,370,070
Notes receivable	9,419,288
Restricted - federal student loans receivable	16,237,526
Capital assets, net of accumulated depreciation	983,659,748
Other assets	2,521,124
	<u>1,106,315,767</u>
Total assets	<u>1,672,012,508</u>

LIABILITIES

Current liabilities:	
Accounts payable	21,750,756
Retainage payable - current portion	834,960
Accrued interest payable	3,351,587
Accrued payroll and related liabilities	13,971,947
Accrued compensated absences - current portion	14,299,361
Capital lease obligations - current portion	540,000
Long-term debt - current portion	16,015,674
Deferred revenues	31,306,370
Deposits	2,536,150
Other liabilities	495,638
Funds held for others	347,072
	<u>105,449,515</u>
Noncurrent liabilities:	
Retainage payable	1,775,807
Accrued compensated absences	13,738,601
Federal loan liability	15,901,125
Capital lease obligations	15,369,142
Long-term debt	445,227,009
	<u>492,011,684</u>
Total liabilities	<u>597,461,199</u>

NET POSITION

Net investment in capital assets	572,691,487
Restricted for:	
Nonexpendable	73,253,629
Expendable	
Scholarships, research, instruction, and other	22,963,414
Loans	2,611,656
Capital projects	61,784,201
Debt service	24,327,931
Unrestricted	316,918,991
	<u>1,074,551,309</u>
Total net position	<u>\$ 1,074,551,309</u>

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

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013

OPERATING REVENUES

Student tuition and fees (\$25,208,584 pledged for bonds)	\$ 518,112,665
Less scholarship allowance	(187,983,948)
Federal grants and contracts	125,260,528
State grants and contracts	66,820,913
Local grants and contracts	900,852
Nongovernmental grants and contracts	34,598,215
Sales and services of educational and other activities	22,226,066
Sales and services of auxiliary enterprises (\$16,517,441 pledged for bonds)	121,553,522
Less scholarship allowance	(4,040,020)
Interest collected on student loans	280,456
Other fees (\$1,694,772 pledged for bonds)	5,498,967
Other operating revenues	<u>4,177,609</u>
Total operating revenues	<u>707,405,825</u>

OPERATING EXPENSES

Salaries and wages	458,471,073
Fringe benefits	132,679,679
Services and supplies	203,252,046
Utilities	26,837,643
Scholarships and fellowships	16,929,182
Depreciation expense	<u>45,399,193</u>
Total operating expenses	<u>883,568,816</u>
Operating (loss)	<u>(176,162,991)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	118,636,624
Federal grants	33,048,886
Gifts	40,737,948
Investment income	2,129,290
Endowment income	3,363,650
Loss on disposal of capital assets	(14,300,432)
Interest on capital asset related debt	<u>(15,046,665)</u>
Net nonoperating revenues	<u>168,569,301</u>
Loss before other revenues and transfers	(7,593,690)
State capital appropriations	10,283,450
Capital grants and gifts	8,159,412
Additions to permanent endowments	1,674,088
Transfers to other campuses, net	<u>(1,099,321)</u>
Change in net position	11,423,939
NET POSITION - BEGINNING OF YEAR	<u>1,063,127,370</u>
NET POSITION - END OF YEAR	<u>\$ 1,074,551,309</u>

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

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Cash Flows
For the year ended June 30, 2013**

OPERATING ACTIVITIES	
Student tuition and fees	\$ 329,067,988
Research grants and contracts	230,253,414
Sales and services of educational and other activities	22,351,321
Sales and services of auxiliary enterprises	115,407,070
Student loans disbursed	(2,887,711)
Student loans collected	2,567,733
Interest collected on student loans	280,456
Inflows from federal direct student loans	209,383,126
Outflows from federal direct student loans	(208,934,364)
Payments to employees for services	(455,510,489)
Payments to employees for benefits	(131,630,263)
Payments to suppliers	(231,909,111)
Payments to students for scholarships and fellowships	(16,929,182)
Other receipts	11,251,808
Inflows from agency funds	58,449,200
Outflows from agency funds	<u>(58,242,248)</u>
Net cash used for operating activities	<u>(127,031,252)</u>
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	118,636,624
Federal grants	33,048,886
Gifts	40,691,933
Additions to permanent endowments	1,674,088
Transfers to other campuses, net	(1,089,751)
Federal loan liability	<u>(267,680)</u>
Net cash provided by noncapital financing activities	<u>192,694,100</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	28,836,369
State capital appropriations	4,230,864
Capital grants and gifts	7,880,703
Proceeds from sale of capital assets	12,002
Purchase and construction of capital assets	(103,915,409)
Principal paid on capital asset related debt	(15,481,386)
Interest paid on capital asset related debt	<u>(19,919,061)</u>
Net cash used for capital and related financing activities	<u>(98,355,918)</u>
INVESTING ACTIVITIES	
Proceeds from note receivable	10,219,622
Investment Income	2,977,744
Endowment Income	<u>3,340,238</u>
Net cash provided by investing activities	<u>16,537,604</u>
Net decrease in cash and cash equivalents	(16,155,466)
Cash and cash equivalents, beginning of year	<u>603,673,398</u>
Cash and cash equivalents, end of year	<u>\$ 587,517,932</u>
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	\$ 326,777,296
Restricted - cash and cash equivalents, current	172,851,687
Restricted - cash and cash equivalents, noncurrent	<u>87,888,949</u>
	<u>\$ 587,517,932</u>

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

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Cash Flows
For the year ended June 30, 2013**

**Reconciliation of net operating loss to net cash
used for operating activities**

Operating loss	\$ (176,162,991)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	45,399,193
Student loans cancelled	282,133
Change in current assets and liabilities	
Accounts receivable, net	(605,292)
Student loans receivable	(319,978)
Inventories	(52,782)
Prepaid items	(140,666)
Accounts payable	(2,486,254)
Retainage payable - non-capital	578,147
Accrued payroll	429,519
Accrued benefits	1,049,416
Accrued annual leave and related liabilities	2,531,065
Deferred revenues	1,698,426
Deposits	133,004
Other liabilities	(19,906)
Funds held for others	655,714
Net cash used for operating activities	<u><u>\$ (127,031,252)</u></u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	\$ <u><u>3,055,059</u></u>
Loss on disposal of capital assets, net	\$ <u><u>(14,300,432)</u></u>
Transfer of capital assets to other campuses, net	\$ <u><u>(9,570)</u></u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	\$ <u><u>119,654</u></u>
Change in value of investments recognized in endowment income	\$ <u><u>(105,202)</u></u>

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

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS

Current assets

Cash and cash equivalents	\$ 961,818
Restricted cash and cash equivalents	30,135,711
Accounts receivable, net	30,802,707
Prepaid items and deposits	<u>286,083</u>
Total current assets	<u>62,186,319</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>142,141</u>
Total noncurrent assets	<u>142,141</u>
Total assets	<u>62,328,460</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	47,006,428
Deferred revenue	14,000,095
Current portion of notes payable	<u>55,586</u>
Total current liabilities	<u>61,062,109</u>

Noncurrent liabilities

Long term notes payable	<u>79,949</u>
Total noncurrent liabilities	<u>79,949</u>
Total liabilities	<u>61,142,058</u>

NET POSITION

Net investment in capital assets	1,311
Unrestricted	<u>1,185,091</u>
Total net position	<u><u>\$ 1,186,402</u></u>

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

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES

Operating revenues	
Federal grants and contracts	\$ 84,181,723
Nongovernmental grants and contracts	83,452,107
Management fees and recoveries	13,662,006
Royalty income	41,237
Other operating revenues	<u>19,598</u>
Total operating revenues	<u>181,356,671</u>

EXPENSES

Operating expenses	
Salaries and benefits	2,657,190
Services and supplies	1,539,771
Research and development direct costs	<u>176,695,302</u>
Total operating expenses	<u>180,892,263</u>
Operating income	<u>464,408</u>

NONOPERATING REVENUES (EXPENSES)

Private gifts and donations	(427,006)
Interest income	<u>4,014</u>
Net nonoperating expenses	<u>(422,992)</u>
Change in net position	41,416
Net position at beginning of year	<u>1,144,986</u>
Net position at end of year	<u><u>\$ 1,186,402</u></u>

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

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS

Current assets	
Cash and cash equivalents	\$ 20,397,640
Investments	8,282,064
Patient accounts receivable less allowance for doubtful accounts	3,141,715
Other accounts receivable	4,961,341
Limited use assets	<u>354,169</u>
Total current assets	<u>37,136,929</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>11,801,062</u>
Total noncurrent assets	<u>11,801,062</u>
Total assets	<u>48,937,991</u>

LIABILITIES

Current liabilities	
Accounts payable and accrued expenses	10,366,346
Current portion of revenue bonds	5,525,000
Current portion of capital lease obligations	<u>254,433</u>
Total current liabilities	<u>16,145,779</u>
Noncurrent liabilities	
Long term capital lease obligations	<u>244,271</u>
Total noncurrent liabilities	<u>244,271</u>
Total liabilities	<u>16,390,050</u>

NET POSITION

Net investment in capital assets	7,023,571
Unrestricted	<u>25,524,370</u>
Total net position	<u><u>\$ 32,547,941</u></u>

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

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES

Operating revenues	
Patient charges, net of contractual allowances & discounts	\$ 38,688,540
Less, provision for bad debts	<u>(2,560,000)</u>
Net patient service revenue less provision for bad debts	36,128,540
Other contract and professional income	25,519,006
Realized investment income, net	235,479
Rental income	61,282
Other income	<u>6,860,573</u>
Total operating revenues	<u>68,804,880</u>

EXPENSES

Operating expenses	
Support of medical school and clinical facilities	7,383,895
Operation of clinical facilities	56,447,870
Operation of building and equipment	2,346,494
Management and general	<u>611</u>
Total operating expenses	<u>66,178,870</u>
Operating income	2,626,010

NONOPERATING REVENUES

Unrealized gain on investment holdings, net	<u>718,741</u>
Change in net position	3,344,751
Net position at beginning of year	<u>29,203,190</u>
Net position at end of year	<u><u>\$ 32,547,941</u></u>

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

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Statements of Financial Position

	June 30, 2013				December 31, 2012	
	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
ASSETS						
Cash and cash equivalents	\$ 2,249,721	\$ 4,211,106	\$ 3,015,105	\$ 1,792,742	\$ 1,479,011	\$ 12,747,685
Investments	26,022,351	276,240,165	42,965,348	5,050,330	6,187,658	356,465,852
Real estate held for investment	30,334,513	2,719,411	-	-	-	33,053,924
Assets held in trust	-	63,914,283	5,000,000	-	-	68,914,283
Accounts receivable	575,130	4,505,730	530,750	521,658	-	6,133,268
Contributions receivable, net	2,154,840	33,348,830	3,324,322	-	965,158	39,793,150
Prepaid expenses	49,123	-	33,486	151,305	-	233,914
Other assets	250,969	-	125,893	41,355	-	418,217
Fixed assets, net of depreciation	15,919,527	-	-	2,318,210	2,221,875	20,459,612
Total assets	<u>\$ 77,556,174</u>	<u>\$ 384,939,525</u>	<u>\$ 54,994,904</u>	<u>\$ 9,875,600</u>	<u>\$ 10,853,702</u>	<u>\$ 538,219,905</u>
LIABILITIES						
Accounts payable and accrued expenses	\$ 2,510,364	\$ 7,320,942	\$ 795,479	\$ 126,335	\$ 69,213	\$ 10,822,333
Lines-of-credit	16,427,279	-	-	-	-	16,427,279
Deferred revenues	-	-	35,425	301,834	-	337,259
Bonds and notes payable	22,711,856	15,655,214	-	-	-	38,367,070
Other liabilities	18,303	6,657,707	-	-	-	6,676,010
Total liabilities	<u>41,667,802</u>	<u>29,633,863</u>	<u>830,904</u>	<u>428,169</u>	<u>69,213</u>	<u>72,629,951</u>
NET ASSETS						
Unrestricted	10,819,497	49,136,994	9,786,956	6,704,737	3,199,043	79,647,227
Temporarily restricted	22,204,185	122,712,841	20,797,408	2,742,694	2,832,981	171,290,109
Permanently restricted	3,365,928	183,455,827	23,579,636	-	4,752,465	215,153,856
Total Foundation net assets	<u>36,389,610</u>	<u>355,305,662</u>	<u>54,164,000</u>	<u>9,447,431</u>	<u>10,784,489</u>	<u>466,091,192</u>
Noncontrolling interest	(501,238)	-	-	-	-	(501,238)
Total net assets	<u>35,888,372</u>	<u>355,305,662</u>	<u>54,164,000</u>	<u>9,447,431</u>	<u>10,784,489</u>	<u>465,589,954</u>
Total liabilities and net assets	<u>\$ 77,556,174</u>	<u>\$ 384,939,525</u>	<u>\$ 54,994,904</u>	<u>\$ 9,875,600</u>	<u>\$ 10,853,702</u>	<u>\$ 538,219,905</u>

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

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Statements of Activities

	For the years ended					Total
	June 30, 2013			December 31, 2012		
	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	
CHANGES IN UNRESTRICTED NET ASSETS:						
Revenues, gains and other support						
Contributions	\$ 198,475	\$ 19,126,930	\$ 4,925,802	\$ 1,925,233	\$ 730,383	\$ 26,906,823
Investment returns (losses)	3,430,987	3,402,661	-	109,590	(75,982)	6,867,256
Net realized and unrealized gains	-	19,362,612	933,041	617,346	-	20,912,999
Earned income	3,734,864	-	1,388,406	661,342	27,555	5,812,167
Other	541,857	739,475	-	-	-	1,281,332
Net assets released from restrictions:						
Transfers	-	-	1,358,741	(393,064)	-	965,677
Reclassification based on law change	-	-	7,547	-	-	7,547
Satisfaction of program restrictions	1,994,152	14,121,678	2,671,341	-	317,217	19,104,388
Expiration of time restrictions	-	649,043	-	-	-	649,043
Total revenues, gains and other support	9,900,335	57,402,399	11,284,878	2,920,447	999,173	82,507,232
Expenses						
Scholarships and student assistance	-	9,178,339	826,574	125,500	176,951	10,307,364
Program services	3,447,593	22,003,924	5,169,095	1,853,486	288,540	32,762,638
Supporting services	3,442,710	3,373,651	274,702	1,056,900	360,634	8,508,597
Total expenses	6,890,303	34,555,914	6,270,371	3,035,886	826,125	51,578,599
Change in unrestricted net assets	3,010,032	22,846,485	5,014,507	(115,439)	173,048	30,928,633

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

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Statements of Activities

	For the years ended					Total
	June 30, 2013			December 31, 2012		
	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	
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Contributions	3,476,989	19,657,999	3,230,785	79,444	20,348	26,465,565
Investment returns	117,983	1,785,270	-	-	733,391	2,636,644
Net realized and unrealized gains	-	13,534,680	5,066,702	-	-	18,601,382
Other	249,471	56,844	-	262,877	10,692	579,884
Net assets released from restrictions:						
Transfers	-	-	(1,358,177)	393,064	-	(965,113)
Reclassification based on law change	-	-	(7,547)	-	-	(7,547)
Satisfaction of program restrictions	(1,994,152)	(14,121,678)	(2,671,341)	-	(317,217)	(19,104,388)
Expiration of time restrictions	-	(2,850,135)	-	-	-	(2,850,135)
Change in temporarily restricted net assets	<u>1,850,291</u>	<u>18,062,980</u>	<u>4,260,422</u>	<u>735,385</u>	<u>447,214</u>	<u>25,356,292</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	7,760,350	360,615	-	83,375	8,204,340
Other	-	-	-	-	28,289	28,289
Net assets released from restrictions:						
Transfers	-	-	(564)	-	-	(564)
Expiration of time restrictions	-	2,201,092	-	-	-	2,201,092
Change in permanently restricted net assets	<u>-</u>	<u>9,961,442</u>	<u>360,051</u>	<u>-</u>	<u>111,664</u>	<u>10,433,157</u>
Change in net assets	4,860,323	50,870,907	9,634,980	619,946	731,926	66,718,082
Net change attributable to noncontrolling interest	<u>65,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,316</u>
NET ASSETS, BEGINNING OF YEAR	<u>31,463,971</u>	<u>304,434,755</u>	<u>44,529,020</u>	<u>8,827,485</u>	<u>10,052,563</u>	<u>399,307,794</u>
NET ASSETS, END OF YEAR	<u>\$ 36,389,610</u>	<u>\$ 355,305,662</u>	<u>\$ 54,164,000</u>	<u>\$ 9,447,431</u>	<u>\$ 10,784,489</u>	<u>\$ 466,091,192</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, the 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 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. As the result of the State of South Carolina's (the State) reevaluation of the University as part of the State's financial reporting entity, the University will be reflected as a discretely presented component unit for fiscal year 2013. As a discretely presented component unit of the State of South Carolina, the University 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 is implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, for the fiscal year ended June 30, 2013. As a result of the reevaluation of the University's financial reporting entity, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust), previously reported as a blended component unit of the University, is reported as a discretely presented component unit beginning with the 2013 fiscal year. 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 position, revenues, expenses and changes in net position and cash flows.

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 non-current and depreciation expense. Actual results could differ from those estimates.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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. The Campuses participate in the State's internal cash management pool, administered by the State Treasurer. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

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 position.

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, 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.

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 position.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. 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; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month 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 2013 was \$4,014,528.

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. The majority of deferred revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. 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 position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

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

Net Position - Components of the Campuses' net position are classified as follows:

Net investment in capital assets: 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 net investment in capital assets.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted - nonexpendable: The restricted nonexpendable component of net position consists 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.

Restricted - expendable: The restricted expendable component of net position includes resources which the Campuses are legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted: The unrestricted component of net position represents 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 political subdivision of the State 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.

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) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campuses; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campuses would not otherwise undertake.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Scholarship Allowance- 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 position. 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. The Campuses had no rebatable arbitrage liability at June 30, 2013.

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 Campuses have a total return policy for authorizing and spending endowment income.

At June 30, 2013, \$12,362,931 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

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. Certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors.

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

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

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

Statement of Net Position		Notes	
Cash and cash equivalents (current)	\$ 326,777,296	Cash on hand	\$ 323,362
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	587,164,138
Debt service	12,862,371	Other deposits	30,432
Scholarship, research, instruction, and other	29,109,098	Investments held by State Treasurer	2,458,273
University administered loans	231,950	Other investments	1,760,789
Capital projects	<u>130,648,268</u>		
	<u>172,851,687</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	69,078,875		
Federal student loans	2,432,493		
Debt service reserves	<u>16,377,581</u>		
	<u>87,888,949</u>		
Investments (noncurrent)	<u>4,219,062</u>		
	<u>\$ 591,736,994</u>		<u>\$ 591,736,994</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 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. For the fiscal year ending June 30, 2013, \$12,235,364 of the \$587,164,138 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

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.

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.

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

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

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 \$1,568,789 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 \$105,202.

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student and sponsors	\$ 8,997,937
Auxiliary enterprises	3,920,264
Federal grants and contracts	28,614,391
State grants and contracts	47,110
Local grants and contracts	63,642
Non-governmental grants and contracts	5,291,479
Accrued interest	4,306,335
	51,241,158
Less allowance for doubtful accounts	(1,298,514)
Accounts receivable, net	\$ 49,942,644

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

Student Loans Receivable and Federal Loan Liability - 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.

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

NOTE 3 - RECEIVABLES, Continued

Capital Improvement Bonds Proceeds Receivable - This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, university infrastructure bonds and capital reserve fund appropriations 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 \$7,923,015 of outstanding capital improvement bond authorization, \$430,551 of outstanding research infrastructure bond authorization, \$608 of outstanding university infrastructure bond authorization and \$5,369,676 of capital reserve fund appropriations. 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 (the Foundation), a discretely presented 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.

During fiscal year 2013, the Foundation made a lump sum principal payment of \$10,219,622. The remaining principal balance of \$9,419,288 and the related cumulative accrued interest receivable of \$2,887,064 respectively are included in notes receivable and accounts receivable, net. Interest payments of \$1,663,954 were received from the Foundation in fiscal year 2013.

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

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land and improvements	\$ 77,581,725	\$ 576,161	\$ -	\$ 78,157,886
Construction in progress	90,450,405	77,983,567	85,617,712	82,816,260
Works of art and historical treasures	19,611,884	2,608,199	-	22,220,083
	<u>187,644,014</u>	<u>81,167,927</u>	<u>85,617,712</u>	<u>183,194,229</u>
 Other capital assets				
Land improvements	63,859,861	27,497,734	-	91,357,595
Buildings and improvements	1,111,232,511	41,394,231	18,332,451	1,134,294,291
Machinery, equipment and other	156,351,471	10,292,301	4,990,290	161,653,482
Vehicles	11,197,608	3,411,671	350,760	14,258,519
Intangibles	4,231,250	30,612,574	261,703	34,582,121
	<u>1,346,872,701</u>	<u>113,208,511</u>	<u>23,935,204</u>	<u>1,436,146,008</u>
 Less accumulated depreciation for:				
Land improvements	15,127,276	3,805,427	-	18,932,703
Buildings and improvements	453,285,397	30,554,220	4,342,231	479,497,386
Machinery, equipment and other	119,223,294	9,908,815	4,699,277	124,432,832
Vehicles	8,735,030	907,147	350,760	9,291,417
Intangibles	3,533,069	223,584	230,502	3,526,151
	<u>599,904,066</u>	<u>45,399,193</u>	<u>9,622,770</u>	<u>635,680,489</u>
 Other capital assets, net	<u>746,968,635</u>	<u>67,809,318</u>	<u>14,312,434</u>	<u>800,465,519</u>
 Capital assets, net	<u><u>\$ 934,612,649</u></u>	<u><u>\$ 148,977,245</u></u>	<u><u>\$ 99,930,146</u></u>	<u><u>\$ 983,659,748</u></u>

NOTE 5 - PENSION PLANS

The Retirement Division 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

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

NOTE 5 - PENSION PLANS, Continued

South Carolina Retirement System - The majority of employees of the Campuses are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campuses actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year Ended	Retirement		Incidental Death	
	Rate	Contribution	Rate	Contribution
2013	10.450%	\$22,293,000	0.150%	\$319,000
2012	9.385%	\$19,328,000	0.150%	\$309,000
2011	9.240%	\$18,614,000	0.150%	\$302,000

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

NOTE 5 - PENSION PLANS, Continued

Teacher and Employee Retention Incentive - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental 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.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campuses actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	\$ 537,000	0.200%	\$ 9,000	0.200%	\$ 9,000
2012	11.385%	\$ 469,000	0.200%	\$ 8,200	0.200%	\$ 8,200
2011	11.130%	\$ 415,000	0.200%	\$ 7,500	0.200%	\$ 7,500

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

NOTE 5 - PENSION PLANS, Continued

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the Campuses may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately \$18,714,000 (excluding the surcharge) from the Campuses as employer and approximately \$12,536,000 from its employees as plan members.

Funding Policies - 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, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Campuses' liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Campuses recognize no contingent liability for unfunded costs associated with participation in the plans.

The amounts paid by the Campuses for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

For the fiscal year ending June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Campuses will be required to recognize a portion of the unfunded pension liability of the cost sharing plans.

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 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 South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA). 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 beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% 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 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$18,060,000 and \$15,883,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The Campuses recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$203,000 and \$199,000 for the years ended June 30, 2013 and 2012, respectively.

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 SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

One may obtain a copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

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

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.

The Campuses had outstanding commitments under construction contracts of \$70,881,601 for capital and \$53,691,705 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

2014	\$ 1,853,467
2015	1,786,092
2016	630,348
2017	89,799
2018	59,475
2019-2023	<u>40,412</u>
Total minimum lease payments	<u><u>\$ 4,459,593</u></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 2014-2023. 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 \$2,789,602 for fiscal year 2013. Of this amount, \$466,050 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$951,682 for office copier contingent rentals on a cost per copy basis.

The Campuses 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, 2013, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,400,000 with \$100,000 reflected as a current asset.

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

NOTE 8 - LEASE OBLIGATIONS, Continued

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, 2013, the remaining unamortized prepaid balance related to the parking lease agreement was \$146,510 with \$76,440 reflected as a current asset.

Capital Leases - Buildings held by the Campuses as of June 30, 2013:

	Cost	Accumulated Depreciation	Net
Buildings	\$ 18,038,502	\$ 2,251,791	\$ 15,786,711

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

2014	\$	1,412,413	
2015		1,382,878	
2016		1,393,045	
2017		5,260,525	
2018		981,931	
2019-2023		4,853,449	
2024-2028		4,992,261	
2029-2031		2,684,967	
Total minimum lease payments		22,961,469	
Less amount representing interest		(7,052,327)	
Present value of minimum lease payments		\$ 15,909,142	

Capital lease obligations consist of:

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

\$ 15,909,142

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>Original Debt</u>	<u>Interest Rates (Outstanding)</u>	<u>Maturity Dates</u>	<u>June 30, 2013 Balance</u>	<u>Debt Retired in Fiscal Year 2013</u>
State Institution Bonds					
Series 2002E	\$ 15,200,000	3.5%	09/01/12	\$ -	\$ 715,000
Series 2003I	7,000,000	3.75%	10/01/13	330,000	315,000
Series 2006B	40,250,000	3.25% to 5.25%	04/01/26	29,075,000	1,650,000
Series 2011A Refunding	18,525,000	2.25% to 5.0%	03/01/22	16,850,000	1,605,000
Series 2011E	20,420,000	2.25% to 5.0%	03/01/31	18,985,000	730,000
Series 2012A Refunding	20,156,000	2.25% to 5.0%	04/01/24	18,291,000	1,865,000
Total State Institution Bonds				\$ 83,531,000	\$ 6,880,000
Revenue Bonds					
Series 2003B	5,500,000	3.5%	05/01/13	\$ -	\$ 260,000
Series 2004A	30,900,000	5.375%	05/01/13	-	680,000
Series 2005A	12,400,000	3.725% to 5.0%	05/01/35	10,430,000	285,000
Series 2005A Refunding	45,245,000	4.0% to 5.0%	06/01/30	33,125,000	2,035,000
Series 2008A	48,225,000	3.5% to 5.25%	06/01/38	44,750,000	935,000
Series 2008A Athletic	27,395,000	4.0% to 5.5%	05/01/38	27,315,000	80,000
Series 2008B Athletic	2,455,000	5.4%	05/01/13	-	495,000
Series 2010A	28,510,000	3.0% to 5.0%	06/01/40	26,945,000	540,000
Series 2010A Athletic	65,855,000	4.0% to 5.0%	05/01/40	62,920,000	1,145,000
Series 2010B Refunding Athletic	12,840,000	3.0% to 5.0%	05/01/27	11,995,000	570,000
Series 2012	61,945,000	3.0% to 5.0%	05/01/35	61,945,000	-
Series 2012 Refunding	26,025,000	2.0% to 5.0%	05/01/34	26,025,000	-
Series 2012A Athletic	13,580,000	2.0% to 4.0%	05/01/42	13,335,000	245,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	26,295,000	3.0% to 5.0%	05/01/43	26,295,000	-
Total Revenue Bonds				\$ 351,430,000	\$ 7,270,000
Subtotal bonds payable				434,961,000	14,150,000
Plus unamortized bond premium				31,297,333	1,664,210
Less unamortized bond discounts				(245,100)	(12,107)
Less unamortized loss on bond refunding				(5,010,842)	(364,468)
Total Bonds Payable				\$ 461,002,391	\$ 15,437,635

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 bonded indebtedness for the preceding year were \$21,801,966 which results in a legal annual debt service at June 30, 2013 of \$19,621,769. The annual debt service payments for the fiscal year were \$10,654,060. Tuition revenue pledged in fiscal year 2013 was \$23,623,535 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 2013 were \$11,544,531 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 2013 consisted of \$1,585,049 in special student fees, \$1,694,772 in special admission fees and \$4,972,910 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 amounts 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 May 1, 2013 the Campuses issued \$26,295,000 in revenue bonds for the renovation of housing facilities.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2014	\$ 6,999,000	\$ 3,612,451	\$ 10,611,451
2015	7,241,000	3,341,854	10,582,854
2016	7,576,000	3,024,441	10,600,441
2017	5,602,000	2,710,279	8,312,279
2018	5,861,000	2,459,079	8,320,079
2019-2023	31,222,000	7,879,431	39,101,431
2024-2028	14,715,000	2,465,206	17,180,206
2029-2031	4,315,000	438,500	4,753,500
Total	\$ 83,531,000	\$ 25,931,241	\$ 109,462,241
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds			
2014	\$ 7,520,000	\$ 16,483,738	\$ 24,003,738
2015	8,305,000	16,172,938	24,477,938
2016	9,965,000	15,825,988	25,790,988
2017	10,375,000	15,423,513	25,798,513
2018	10,810,000	14,979,213	25,789,213
2019-2023	61,630,000	67,368,419	128,998,419
2024-2028	73,720,000	51,872,050	125,592,050
2029-2033	80,595,000	33,567,144	114,162,144
2034-2038	67,165,000	14,348,888	81,513,888
2039-2043	21,345,000	1,993,075	23,338,075
Total	\$ 351,430,000	\$ 248,034,966	\$ 599,464,966

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 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%.	\$ 124,509
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%.	90,542
Note payable for energy efficiency projects, dated June 2010, payable in annual installments of \$7,168, at no interest, matures June 2015.	7,168
Note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$5,831, at no interest, matures January 2015.	11,495
Note payable for energy efficiency projects, dated September 2009, payable in annual installments of \$3,289, at no interest, matures September 2014.	6,578
	\$ 240,292

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2014	\$ 128,008	\$ 5,699	\$ 133,707
2015	81,459	2,073	83,532
2016	30,825	663	31,488
Total	\$ 240,292	\$ 8,435	\$ 248,727

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

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Bonds Payable:					
State Institution Bonds	\$ 90,411,000	\$ -	\$ 6,880,000	\$ 83,531,000	\$ 6,999,000
Revenue Bonds	332,405,000	26,295,000	7,270,000	351,430,000	7,520,000
Subtotal Bonds Payable	422,816,000	26,295,000	14,150,000	434,961,000	14,519,000
Unamortized Bond Premiums	30,470,472	2,491,071	1,664,210	31,297,333	1,745,013
Unamortized Bond Discounts	(257,207)	-	(12,107)	(245,100)	(12,900)
Unamortized Loss on Bond Refunding	(5,375,310)	-	(364,468)	(5,010,842)	(363,447)
 Total Bonds Payable	 447,653,955	 28,786,071	 15,437,635	 461,002,391	 15,887,666
Notes Payable	1,021,379	50,298	831,385	240,292	128,008
 Total Bonds and Notes Payable	 <u>\$ 448,675,334</u>	 <u>\$ 28,836,369</u>	 <u>\$ 16,269,020</u>	 <u>\$ 461,242,683</u>	 <u>\$ 16,015,674</u>
 Capital Lease Obligations	 \$ 16,409,142	 \$ -	 \$ 500,000	 \$ 15,909,142	 \$ 540,000
Accrued Compensated Absences	\$ 25,506,897	\$ 15,979,416	\$ 13,448,351	\$ 28,037,962	\$ 14,299,361

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

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 Research Foundation and the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust), both of which are considered governmental component units. In addition, the University of South Carolina Development 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 are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as governmental or non-governmental reporting entities.

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.

Governmental Discretely Presented Component Units

The University of South Carolina Research Foundation (the 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. In 2013, the Campuses and Research Foundation management agreed to administrative process changes that allowed the Campuses to resume their historic role of directly processing new federal grant and contract transactions.

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

NOTE 11 - COMPONENT UNITS, Continued

The Campuses expect that over a period of five years this decision will result in the University processing all federal grant and contract transactions and an equal reduction in the federal grant activities processed by the Research Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (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 Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3). In order to conform to the Campuses' fiscal year end and other operational reasons, the Trust changed the end of its financial reporting period to June 30. This change was effective for the inclusion in the financial statements of the Campuses on June 30, 2013. Complete financial statements for the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202.

Non-Governmental Discretely Presented Component Units

The University of South Carolina Development Foundation (the 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 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 Educational Foundation (the 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 \$183,455,827 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 University of South Carolina Business Partnership Foundation (the 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 \$23,579,636 or 43% 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.

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

NOTE 11 - COMPONENT UNITS, Continued

The Greater University of South Carolina Alumni Association (the Association) was formed to serve the students after they graduate. The 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.

The Educational Foundation of the University of South Carolina - Lancaster (the Foundation) operates for the benefit and support of the University of South Carolina at Lancaster (the Campus). Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the campus. The Campus receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the Campus. In order to conform to the Campuses' fiscal year end, the Foundation changed the end of its financial reporting period to June 30. Although this change was effective for inclusion in the financial statements of the Campuses on June 30, 2013, audited financial statements were not available for the reporting period ended June 30, 2013. The most recent financial statements available at the time of issuance of the Campuses' financial statements were for the fiscal year ended December 31, 2012. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

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

Funds Received from Component Units

USC Research Foundation	\$ 26,418,321
USC School of Medicine Educational Trust & Clinical Faculty Practice	2,045,896
USC Development Foundation	858,455
USC Educational Foundation	19,114,858
USC Business Partnership Foundation	63,939
Greater USC Alumni Foundation	608,023
Educational Foundation of USC Lancaster	<u>85,247</u>
	<u>\$ 49,194,739</u>

The majority of the University of South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other component units are recorded as private gifts revenue. Federal grants and contracts receivables include \$10,469,995 due from the University of South Carolina Research Foundation at June 30, 2013.

Funds Paid to Component Units

USC Research Foundation	\$ 158,972
USC School of Medicine Educational Trust & Clinical Faculty Practice	3,299,378
USC Development Foundation	382,225
USC Educational Foundation	51,910
USC Business Partnership Foundation	35,242
Greater USC Alumni Association	10,652
Educational Foundation of USC Lancaster	<u>2,520</u>
	<u>\$ 3,940,899</u>

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 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, 2013 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, 2013, the Commission received an annual appropriation of \$1,301,493. The Commission disbursed \$1,050,000 to USC Lancaster for operations and maintenance of the physical plant and \$7,549 to vendors for insurance, professional services, and commencement expenses. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2013, the Commission had a net position of \$482,759.

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 \$88,331 for the fiscal year ended June 30, 2013. 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, 2013, the Commission had a net position of \$121,757.

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

NOTE 12 - RELATED PARTIES, Continued

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 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 fiscal year ended June 30, 2013, the Commission made payments to USC Sumter totaling \$262,950 for the operation and maintenance of the campus. At June 30, 2013, the Commission had a net position of \$293,947.

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 \$157,419 to accomplish these objectives. During the year ended June 30, 2013, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$399,553 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, 2013, the Commission had a net position of \$2,270,429.

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 allow 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. During 2013, the University determined that the existing technology employed to operate the facility was not viable and recorded an impairment loss in the amount of the remaining net book value of \$13,990,218 as of June 30, 2013. This impairment loss is included within the "Loss on disposal of capital assets" on the Statement of Revenues, Expenses and Changes in Net Position. Subsequent to year end, the University received approximately \$14.4 million from JCI as a financial settlement for the Biomass facility agreement.

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	\$200,008,035	\$ 58,501,277	\$ 29,421,195	\$ 44,973	\$ 665,204	\$ -	\$288,640,684
Research	60,282,218	20,464,262	34,209,393	5,144	355,637	-	115,316,654
Public service	31,617,261	8,362,291	12,591,851	9,409	256,783	-	52,837,595
Academic support	40,850,232	11,222,763	17,394,800	26,507	21,425	-	69,515,727
Student services	25,808,928	6,561,122	15,861,963	826,358	88,709	-	49,147,080
Institutional support	36,904,507	10,700,298	6,812,460	174,474	22,000	-	54,613,739
Operation & plant maintenance	21,265,009	7,023,983	33,299,607	18,040,594	2,325	-	79,631,518
Auxiliary enterprises	41,646,691	8,890,348	53,477,553	7,710,184	676,392	-	112,401,168
Scholarships and fellowships	88,192	953,335	183,224	-	14,840,707	-	16,065,458
Depreciation	-	-	-	-	-	45,399,193	45,399,193
Total operating expenses	<u>\$458,471,073</u>	<u>\$132,679,679</u>	<u>\$203,252,046</u>	<u>\$ 26,837,643</u>	<u>\$ 16,929,182</u>	<u>\$ 45,399,193</u>	<u>\$883,568,816</u>



**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, in accordance with the 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, the financial statements of the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated December 2, 2013. Our report includes a reference to other auditors who audited the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); University of South Carolina 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 Trust and the Foundations), as described in our report on the Campuses' financial statements. This report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundations, excluding the University of South Carolina Research Foundation, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Campuses' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiency 2013-1 in internal control, described in the accompanying *Schedule of Findings*, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campuses' financial statements are free from 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*.

The Campuses' Response to Findings

The Campuses' response to the finding identified in our audit is described in the accompanying *Schedule of Findings*. The Campuses' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
December 2, 2013

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Schedule of Findings

I. Summary of Auditor's Results

Financial Statements

(a.) Type of auditor's report:	Unmodified
(b.) Internal control over financial reporting:	
1) Material weaknesses identified:	No
2) Significant deficiencies identified that are not considered to be material weaknesses:	Yes
(c.) Noncompliance material to financial statements noted:	No

II. Financial Statement Findings:

2013-1: Grant Revenue

Criteria: As described in paragraph 21 of GASB 33 - *Accounting and Financial Reporting for Nonexchange Transactions*, grant recipients should recognize receivables and revenues when all applicable eligibility requirements are met.

Condition: During May 2013, the Campuses met eligibility requirements related to approximately \$5.1 million in reimbursable grant expenditures. However, revenue and grant receivables related to these expenditures were not recorded in the Campuses' closing general ledger for the year ended June 30, 2013.

Context: Total grant expenditures per the schedule of federal awards was compared to federal grant revenues per the general ledger. The resulting variance was investigated.

Effect: Grant revenues and grant receivables were understated by approximately \$5.1 million.

Cause: During fiscal year 2013, a new invoicing procedure was implemented for pass-through entities which caused grant revenue to be understated.

Recommendation: We recommend the Campuses record grants receivable and related revenues as soon as grant eligibility requirements are met.

Views of responsible officials and planned corrective actions: Grant revenues and grant receivables will be recorded at the end of each monthly accounting period. Any outstanding transactions at the end of the fiscal year will be accrued and recorded in accordance with Campuses and accounting rules and policies. This one time occurrence was due to a procedural change to increase efficiency. The procedure has been analyzed and is deemed to be correct and in standing with the function for which it was devised.