

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

REPORT ON FINANCIAL STATEMENTS

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

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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 of the University of South Carolina - Beaufort (the Campus), a campus 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 Campus' 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 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.

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 Campus 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 Campus. 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Campus 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 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 Campus' 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 Campus' internal control over financial reporting and compliance.



Columbia, South Carolina
December 2, 2013

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina - Beaufort (the Campus) is pleased to present its financial statements for the fiscal year 2013. Management's Discussion and Analysis provides an overview and analysis of the Campus' 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.

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 Campus, the results of operations, and cash flows of the Campus 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 Campus' net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Campus' 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 Campus 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 Campus. 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.

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

- Restricted net position -
 - a. Nonexpendable restricted net position consists solely of the Campus' 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	\$ 7,149,670	\$ 6,850,243	\$ 299,427	4.37%
Capital Assets, Net	39,526,277	40,073,715	(547,438)	-1.37%
Other Noncurrent Assets	79,000	79,000	-	0.00%
Total Assets	46,754,947	47,002,958	(248,011)	-0.53%
Liabilities				
Current Liabilities	1,754,840	1,095,457	659,383	60.19%
Noncurrent Liabilities	2,808,269	2,989,045	(180,776)	-6.05%
Total Liabilities	4,563,109	4,084,502	478,607	11.72%
Net Position				
Net investment in capital assets	36,879,071	37,298,194	(419,123)	-1.12%
Restricted - nonexpendable	79,000	79,000	-	0.00%
Restricted - expendable	1,384,923	2,036,519	(651,596)	-32.00%
Unrestricted	3,848,844	3,504,743	344,101	9.82%
Total Net Position	\$ 42,191,838	\$ 42,918,456	\$ (726,618)	-1.69%

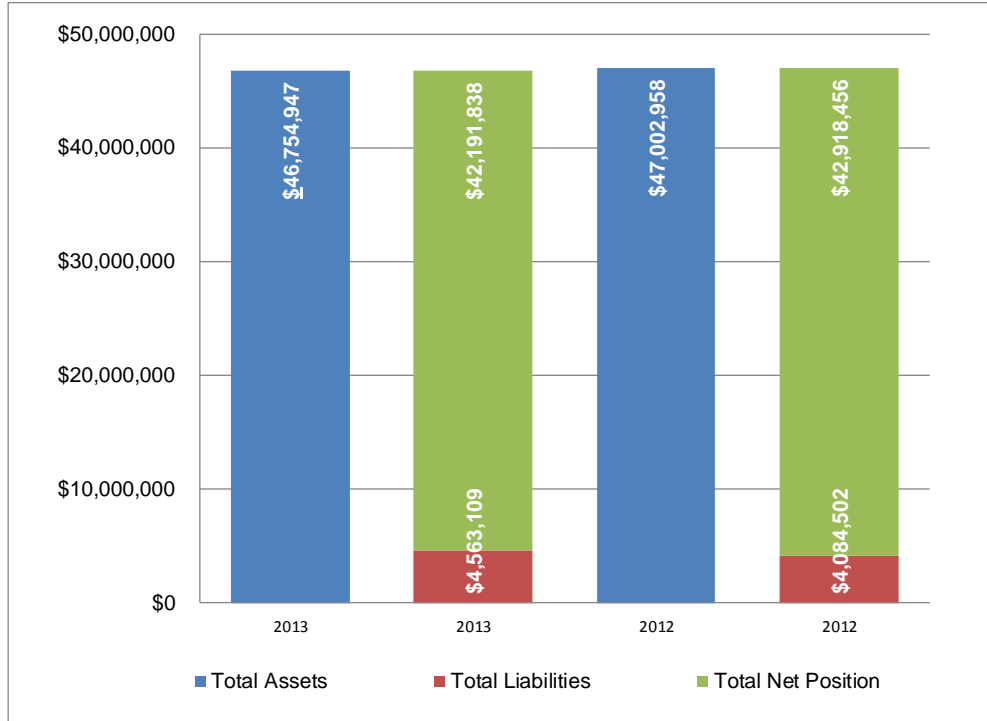
- Total assets of the Campus decreased by approximately \$248,000. Net capital assets decreased approximately \$547,400 due to various capital purchases and annual depreciation throughout the year while current assets increased by approximately \$299,400 due to the increase in unrestricted net position.

- Current liabilities increased approximately \$659,300 primarily due to the timing of year end purchases.

- Net position of the Campus decreased during the year by approximately \$726,600. The net decrease is due to the following:
 - ♦ Net investment in capital assets decreased by approximately \$419,100 due to various capital purchases and annual depreciation throughout the year.
 - ♦ Expendable restricted net position decreased by approximately \$651,600 due to the completion of the library 2nd floor project.
 - ♦ Unrestricted net position increased by approximately \$344,100 due to an additional transfer for Palmetto College.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Assets, Liabilities and Net Position



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 institutions, both operating and nonoperating, and the expenses paid by the institutions, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institutions.

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

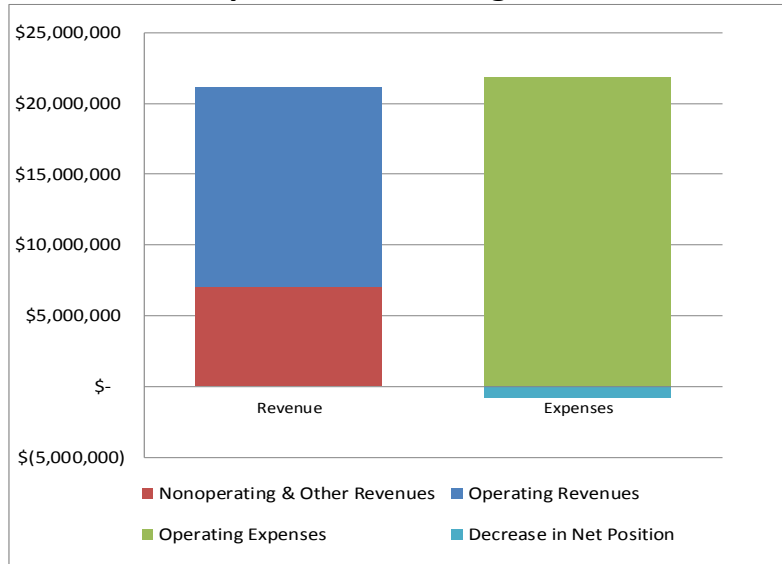
UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	\$ 10,111,015	\$ 9,809,156	\$ 301,859	3.08%
Federal grants and contracts	540,899	755,581	(214,682)	-28.41%
State grants and contracts	2,195,049	2,114,442	80,607	3.81%
Local grants and contracts	196,031	227,290	(31,259)	-13.75%
Nongovernmental grants and contracts	54,851	23,616	31,235	132.26%
Sales and services of educational and other activities	749,112	612,044	137,068	22.40%
Sales and services of auxiliary enterprises	14,670	79,605	(64,935)	-81.57%
Other fees	131,295	95,169	36,126	37.96%
Other operating revenues	109,161	474,461	(365,300)	-76.99%
Total operating revenues	<u>14,102,083</u>	<u>14,191,364</u>	<u>(89,281)</u>	<u>-0.63%</u>
Operating Expenses:				
Salaries and wages	11,546,602	10,842,155	704,447	6.50%
Fringe benefits	3,336,547	2,966,613	369,934	12.47%
Services and supplies	4,388,168	4,354,068	34,100	0.78%
Utilities	861,696	831,156	30,540	3.67%
Scholarships and fellowships	464,599	523,120	(58,521)	-11.19%
Depreciation expense	1,282,615	1,264,307	18,308	1.45%
Total operating expenses	<u>21,880,227</u>	<u>20,781,419</u>	<u>1,098,808</u>	<u>5.29%</u>
Operating loss	(7,778,144)	(6,590,055)	(1,188,089)	18.03%
Net nonoperating revenues	6,707,993	6,371,553	336,440	5.28%
Loss before other revenues & transfers	(1,070,151)	(218,502)	(851,649)	389.77%
Other revenues and transfers	343,533	455,464	(111,931)	-24.58%
Change in net position	(726,618)	236,962	(963,580)	-406.64%
Net position at beginning of year	<u>42,918,456</u>	<u>42,681,494</u>	<u>236,962</u>	<u>0.56%</u>
Net position at end of year	<u>\$ 42,191,838</u>	<u>\$ 42,918,456</u>	<u>\$ (726,618)</u>	<u>-1.69%</u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Revenues, Expenses and Changes in Net Position



Some highlights of the changes in the Statement of Revenues, Expenses and Changes in Net Position are as follows:

- The overall decrease of approximately \$89,300 in total operating revenues was due to an approximate \$301,900 increase in net student tuition and fees while other operating revenues decreased approximately \$365,300. Student tuition and fee revenue, net of the scholarship allowance, increased primarily due to a 3.14% tuition increase at the Campus. The decrease in other operating revenue is attributable to an insurance settlement received in 2012 and no settlements received during fiscal year 2013.
- Operating expenses increased approximately \$1.1 million and 5.29%. The majority of the increase 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 contributions and employer health insurance.
- Net nonoperating revenues increased approximately \$336,400 due to additional state funds for deferred maintenance and technology initiatives.

STATEMENT OF CASH FLOWS

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

- *Operating Activities* - the net cash provided by (used for) the operating activities of the institution.
- *Non-Capital 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.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

- 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, the Campus did not have any major capital projects started or completed.

The Campus' indebtedness consists of bonds payable of \$2.5 million and notes payable of \$6,896.

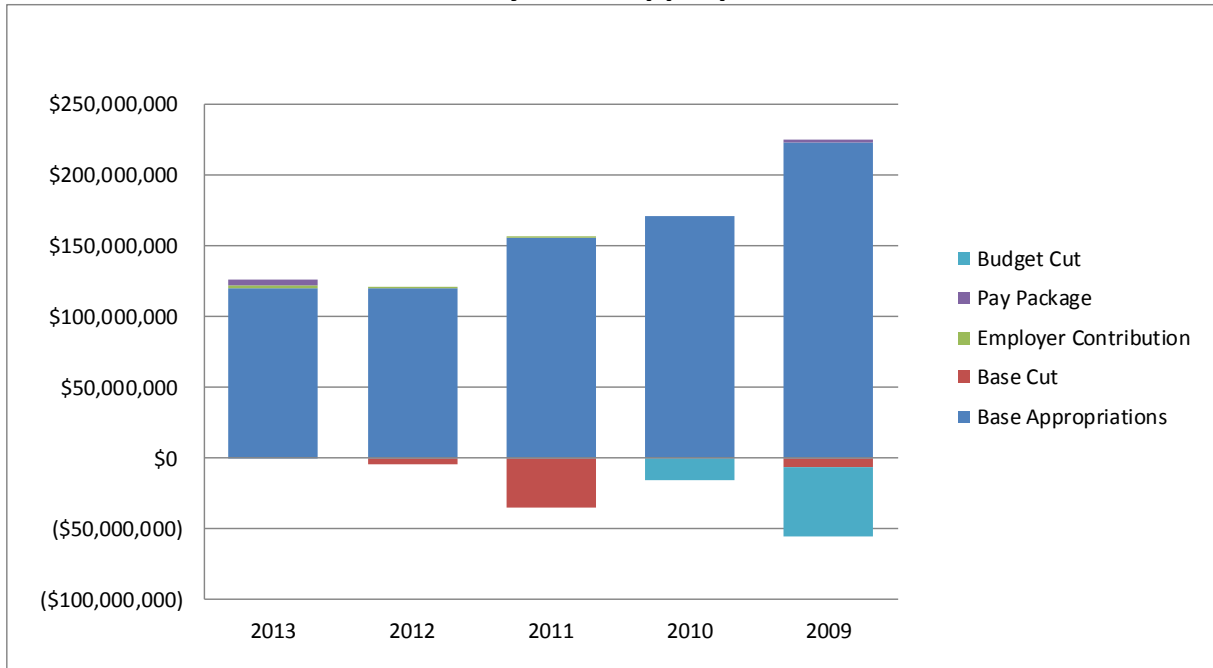
ECONOMIC OUTLOOK

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campus' sustained financial performance despite significant reductions in state appropriations from 2008 to 2012. The Campus received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases.

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 the surplus revenues, \$68.3M was available for transfer to the State's contingency reserve fund. The Campus is a beneficiary of the fourth straight year of state surpluses, as non-recurring funds totaling \$61,899 were made available for deferred maintenance projects in 2014. The Campus also receives new, recurring state funding to address the parity issue that compares state funding per FTE student with the other comprehensive institutions. The Campus' share of these funds going forward is \$1,200,000.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

University State Appropriations



UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Net Position
June 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 4,706,603
Restricted - cash and cash equivalents	1,772,830
Accounts receivable, net	514,194
Prepaid items	156,043
	7,149,670

Noncurrent assets:

Restricted - cash and cash equivalents	79,000
Capital assets, net of accumulated depreciation	39,526,277
	39,605,277
Total noncurrent assets	39,605,277
Total assets	46,754,947

LIABILITIES

Current liabilities:

Accounts payable	217,220
Accrued interest payable	37,176
Accrued payroll and related liabilities	73,246
Accrued compensated absences - current portion	294,009
Long-term debt - current portion	121,416
Deferred revenues	431,581
Deposits	9,567
Funds held for others	570,625
	1,754,840

Noncurrent liabilities:

Accrued compensated absences	282,479
Long-term debt	2,525,790
	2,808,269
Total noncurrent liabilities	2,808,269
Total liabilities	4,563,109

NET POSITION

Net investment in capital assets	36,879,071
Restricted for:	
Nonexpendable	79,000
Expendable	
Scholarships, research, instruction, and other	391,367
Loans	314
Capital projects	975,174
Debt service	18,068
Unrestricted	3,848,844
	3,848,844
Total net position	\$ 42,191,838

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

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

OPERATING REVENUES

Student tuition and fees (\$232,279 pledged for bonds)	\$ 16,022,577
Less scholarship allowance	(5,911,562)
Federal grants and contracts	540,899
State grants and contracts	2,195,049
Local grants and contracts	196,031
Nongovernmental grants and contracts	54,851
Sales and services of educational and other activities	749,112
Sales and services of auxiliary enterprises	14,670
Other fees	131,295
Other operating revenues	<u>109,161</u>
Total operating revenues	<u>14,102,083</u>

OPERATING EXPENSES

Salaries and wages	11,546,602
Fringe benefits	3,336,547
Services and supplies	4,388,168
Utilities	861,696
Scholarships and fellowships	464,599
Depreciation expense	<u>1,282,615</u>
Total operating expenses	<u>21,880,227</u>
Operating loss	<u>(7,778,144)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	1,778,135
Federal grants	3,113,358
Gifts	1,909,592
Investment income	13,224
Endowment income	2,203
Loss on disposal of capital assets	(2,453)
Interest on capital asset related debt	<u>(106,066)</u>
Net nonoperating revenues	<u>6,707,993</u>
Loss before other revenues and transfers	(1,070,151)
State capital appropriations	30,892
Capital grants and gifts	(152,685)
Transfers from other campuses, net	<u>465,326</u>
Change in net position	(726,618)
NET POSITION, BEGINNING OF YEAR	<u>42,918,456</u>
NET POSITION, END OF YEAR	<u><u>\$ 42,191,838</u></u>

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Cash Flows
For the year ended June 30, 2013

OPERATING ACTIVITIES

Student tuition and fees	\$ 10,091,813
Research grants and contracts	2,930,651
Sales and services of educational and other activities	727,571
Sales and services of auxiliary enterprises	14,670
Inflows from federal direct student loans	9,888,032
Outflows from federal direct student loans	(9,846,615)
Payments to employees for services	(11,457,074)
Payments to employees for benefits	(3,332,965)
Payments to suppliers	(5,135,643)
Payments to students for scholarships and fellowships	(464,599)
Other receipts	248,856
Inflows from agency funds	3,142,505
Outflows from agency funds	<u>(2,742,626)</u>
Net cash used for operating activities	<u>(5,935,424)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	1,778,135
Federal grants	3,113,358
Gifts	1,909,592
Transfers from other campuses, net	<u>465,326</u>
Net cash provided by noncapital financing activities	<u>7,266,411</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations	30,892
Capital grants and gifts	(30,891)
Purchase and construction of capital assets	(894,847)
Principal paid on capital asset related debt	(120,793)
Interest paid on capital asset related debt	<u>(114,137)</u>
Net cash used for capital and related financing activities	<u>(1,129,776)</u>

INVESTING ACTIVITIES

Investment income	20,598
Endowment income	<u>2,203</u>
Net cash provided by investing activities	<u>22,801</u>
Net increase in cash and cash equivalents	<u>224,012</u>

Cash and cash equivalents, beginning of year

6,334,421

Cash and cash equivalents, end of year

\$ 6,558,433

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 4,706,603
Restricted - cash and cash equivalents, current	1,772,830
Restricted - cash and cash equivalents, noncurrent	<u>79,000</u>
	<u>\$ 6,558,433</u>

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
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	\$ (7,778,144)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	1,282,615
Change in current assets and liabilities	
Accounts receivable, net	(42,796)
Prepaid items	(39,993)
Accounts payable	154,214
Accrued payroll	12,170
Accrued benefits	3,582
Accrued annual leave and related liabilities	77,358
Deferred revenues	(54,126)
Deposits	8,400
Funds held for others	441,296
	<u>441,296</u>
Net cash used for operating activities	<u>\$ (5,935,424)</u>
NONCASH TRANSACTIONS	
Loss on disposal of capital assets, net	<u>\$ (2,453)</u>

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina - Beaufort (the Campus) is a State-supported, coeducational institution of higher education and is one of eight campuses of the University of South Carolina (the University). The Campus' 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.

The Campus is part of 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.

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.

Basis of Accounting - For financial reporting purposes, the Campus is considered to be engaged only in business-type activities. Accordingly, the Campus' 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 Campus considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Campus participates 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.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Campus reports 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 Campus' special deposit accounts is posted at the end of each month based on the percentage of the Campus' 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.

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 Campus' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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.

Noncurrent Cash - Noncurrent cash consists of permanently endowed funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net position.

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 Campus follows 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 Campus capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 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 Campus capitalizes, 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. The Campus had no capitalized interest for fiscal year 2013.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Compensated Absences - Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net 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; and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

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

Net investment in capital assets: This represents the Campus' 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.

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 Campus is 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 Campus, 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.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campus' 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 Campus; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campus 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.

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 Campus, 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 Campus' financial statements.

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Campus 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 Campus has a total return policy for authorizing and spending endowment income.

At June 30, 2013, \$37,235 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

Most deposits of the Campus 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.

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

Statement of Net Position		Notes	
Cash and cash equivalents (current)	\$ 4,706,603	Cash on hand	\$ 3,904
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	6,554,529
Debt service	55,043		
Scholarship, research, instruction, and other	477,887		
University administered loans	314		
Capital projects	<u>1,239,586</u>		
	<u>1,772,830</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	<u>79,000</u>		
	<u>\$ 6,558,433</u>		<u>\$ 6,558,433</u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

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

Deposits Held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. 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, \$52,870 of the \$6,554,529 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student and sponsors	\$ 356,671
Federal grants and contracts	130,662
State grants and contracts	38,264
Local grants and contracts	78,953
Non-governmental grants and contracts	1,944
Accrued interest	5,060
	<hr/>
	611,554
Less allowance for doubtful accounts	(97,360)
	<hr/>
Accounts receivable, net	<u>\$ 514,194</u>

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

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
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	\$ 872,026	\$ -	\$ -	\$ 872,026
Construction in progress	6,305,414	420,966	447,960	6,278,420
	<u>7,177,440</u>	<u>420,966</u>	<u>447,960</u>	<u>7,150,446</u>
Total capital assets not being depreciated				
Other capital assets				
Land improvements	6,220,370	447,961	-	6,668,331
Buildings and improvements	36,304,457	-	-	36,304,457
Machinery, equipment and other	1,394,320	289,294	36,997	1,646,617
Vehicles	203,846	27,369	-	231,215
	<u>44,122,993</u>	<u>764,624</u>	<u>36,997</u>	<u>44,850,620</u>
Total capital assets at historical cost				
Less accumulated depreciation for:				
Land improvements	1,196,494	193,326	-	1,389,820
Buildings and improvements	8,978,678	938,432	-	9,917,110
Machinery, equipment and other	894,716	135,698	34,544	995,870
Vehicles	156,830	15,159	-	171,989
	<u>11,226,718</u>	<u>1,282,615</u>	<u>34,544</u>	<u>12,474,789</u>
Total accumulated depreciation				
Other capital assets, net	32,896,275	(517,991)	2,453	32,375,831
Capital assets, net	<u>\$ 40,073,715</u>	<u>\$ (97,025)</u>	<u>\$ 450,413</u>	<u>\$ 39,526,277</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, Post Office 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 - BEAUFORT
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

South Carolina Retirement System - The majority of employees of the Campus 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 Campus' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2013	10.450%	\$648,000	0.150%	\$9,000
2012	9.385%	\$555,000	0.150%	\$9,000
2011	9.240%	\$529,000	0.150%	\$8,000

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
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).

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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 Campus' 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 <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>		<u>Accidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2013	11.900%	\$ 47,000	0.200%	\$ 800	0.200%	\$ 800
2012	11.385%	\$ 40,000	0.200%	\$ 700	0.200%	\$ 700
2011	11.130%	\$ 35,000	0.200%	\$ 600	0.200%	\$ 600

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the Campus 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 \$416,000 (excluding the surcharge) from the Campus as employer and approximately \$279,000 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 Campus' 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 Campus recognizes no contingent liability for unfunded costs associated with participation in the plans.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

The amounts paid by the University 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 Campus will be required to recognize a portion of the unfunded pension liability of the cost sharing plans.

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 Campus contributes 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 Campus paid approximately \$481,000 and \$419,000 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 Campus recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$6,000 and \$6,000 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.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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.

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

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

The Campus had outstanding commitments under construction contracts of \$32,888 for capital and \$47,261 for noncapital projects. The Campus anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

NOTE 8 - LEASE OBLIGATIONS

The Campus has no noncancelable operating leases with remaining terms of more than one year. Total payments for a year to year operating lease were \$21,457 for fiscal year 2013. In the current fiscal year, the Campus incurred expenses of \$69,632 for office copier contingent rentals on a cost per copy basis. The campus has two real property operating leases which can be renewed on an annual basis. The amount committed under these leases at June 30, 2013 was \$1,223.

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 2011E	\$2,675,000	2.25% to 5.0%	03/01/31	\$ 2,485,000	\$ 95,000
Series 2012A Refunding	51,000	4.0% to 5.0%	04/01/16	39,000	12,000
Subtotal bonds payable				2,524,000	107,000
Plus unamortized bond premium				116,310	7,522
Total Bonds Payable				<u>\$ 2,640,310</u>	<u>\$ 114,522</u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

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 Campus' debt service limit on bonded indebtedness for the preceding year were \$354,094 which results in a legal annual debt service at June 30, 2013 of \$318,685. The annual debt service payments for the fiscal year were \$221,136. Tuition revenue pledged in fiscal year 2013 was \$232,279 for state institution bonds.

The Campus believes it is in compliance with all related bond covenants of its issued debt.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2014	\$ 107,000	\$ 111,711	\$ 218,711
2015	113,000	108,381	221,381
2016	119,000	104,731	223,731
2017	105,000	101,669	206,669
2018	110,000	98,519	208,519
2019-2023	615,000	417,844	1,032,844
2024-2028	790,000	250,425	1,040,425
2029-2031	565,000	57,250	622,250
Total	<u>\$ 2,524,000</u>	<u>\$ 1,250,530</u>	<u>\$ 3,774,530</u>

Notes Payable - Notes payable consisted of the following:

Note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$6,896 at no interest, matures January 2014.

\$ 6,896

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	<u>\$ 6,896</u>	<u>\$ -</u>	<u>\$ 6,896</u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
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	\$ 2,631,000	\$ -	\$ 107,000	\$ 2,524,000	\$ 107,000
Unamortized Bond Premiums	123,832	-	7,522	116,310	7,520
Total Bonds Payable	2,754,832	-	114,522	2,640,310	114,520
Notes Payable	20,689	-	13,793	6,896	6,896
Total Bonds and Notes Payable	<u>\$ 2,775,521</u>	<u>\$ -</u>	<u>\$ 128,315</u>	<u>\$ 2,647,206</u>	<u>\$ 121,416</u>
Accrued Compensated Absences	\$ 499,130	\$ 331,409	\$ 254,051	\$ 576,488	\$ 294,009

Additional information regarding bonds payable is included in Note 9.

NOTE 11 - RELATED PARTY

The Beaufort Jasper Higher Education Commission (the Commission) is a separately chartered legal entity which does 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 a component unit of the Campus. While it is not financially accountable to the Campus, the Commission exists primarily to provide financial assistance and other support to the Campus and the educational programs. The activities of the Commission are not included in the Campus' financial statements.

The Commission was created by Act 59 in the 2004 session of the General Assembly of South Carolina. The Commission is composed of nine members who are appointed by the Governor on the recommendation of a majority of the Beaufort and Jasper County Legislative Delegation. The Commission's purpose is to contract with institutions of higher education for the establishment and operation of education centers in Beaufort and Jasper counties and it is empowered to make binding agreements for the furnishing of suitable facilities and accommodations for the education centers. The Commission receives an annual appropriation from Beaufort and Jasper Counties to accomplish these objectives. During the year ended June 30, 2013, a gift of \$1,782,000 was paid from the Commission to the University of South Carolina Beaufort (USC Beaufort). Of this amount, \$112,357 was reimbursement of Commission salaries paid by USC Beaufort, \$131,000 was development reimbursement, and the remaining funds were gifted for general operating purposes. The Commission allows use of its land and buildings for USC Beaufort housing, dining, and bookstore services. At June 30, 2013, the Commission had a net position of \$8,007,635.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 12 - RISK MANAGEMENT

The Campus has 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 Campus' insurance coverage.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 12 - 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 Campus 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 13 - 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	\$ 5,297,834	\$ 1,504,429	\$ 861,723	\$ 1,709	\$ -	\$ -	\$ 7,665,695
Research	359,974	87,593	96,547	-	90	-	544,204
Public service	363,434	93,280	190,675	-	-	-	647,389
Academic support	1,831,340	570,900	977,816	-	140	-	3,380,196
Student services	1,643,311	487,595	1,124,409	289	2,256	-	3,257,860
Institutional support	979,475	270,900	301,140	-	28	-	1,551,543
Operation & plant maintenance	1,071,234	321,850	833,283	859,698	-	-	3,086,065
Auxiliary enterprises	-	-	2,575	-	-	-	2,575
Scholarships and fellowships	-	-	-	-	462,085	-	462,085
Depreciation	-	-	-	-	-	1,282,615	1,282,615
Total operating expenses	<u>\$ 11,546,602</u>	<u>\$ 3,336,547</u>	<u>\$ 4,388,168</u>	<u>\$ 861,696</u>	<u>\$ 464,599</u>	<u>\$ 1,282,615</u>	<u>\$ 21,880,227</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 of the University of South Carolina - Beaufort (the Campus), a campus 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 Campus’ basic financial statements, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Campus’ 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 Campus’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Campus’ 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campus' 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*.

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 style with a long, sweeping underline.

Columbia, South Carolina
December 2, 2013