

UNIVERSITY OF SOUTH CAROLINA - AIKEN

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2015**

UNIVERSITY OF SOUTH CAROLINA - AIKEN

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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 - Aiken (the Campus), a campus of the University of South Carolina, as of and for the year ended June 30, 2015, 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 of America. 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 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

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, 2015, 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.

Implementation of New Accounting Pronouncement

As discussed in Notes 1 and 5 to the financial statements, the Campus adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 effective July 1, 2014. Our audit opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Campus' Contributions, Schedule of the Campus' Proportionate Share of the Net Pension Liability, and management's discussion and analysis on pages 3 through 10 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 (GASB), 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 November 20, 2015, 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
November 20, 2015

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina – Aiken (the Campus) is pleased to present its financial statements for the fiscal year 2015. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2015, with comparative information for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2015 and 2014 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 is 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, deferred outflows of resources, liabilities, deferred inflows of resources 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.
- Deferred Outflows of Resources - Consumption of net position that is applicable to a future reporting period.
- Liabilities - What we owe to others and have collected from others before we have provided the service.
- Deferred Inflows of Resources - Acquisition of net position by the government that is applicable to a future reporting period.
- Net Position - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

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 - AIKEN
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 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.
- Restricted net position -
 - a. Nonexpendable restricted net position consists solely of the Campus' permanent endowment funds and is 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.

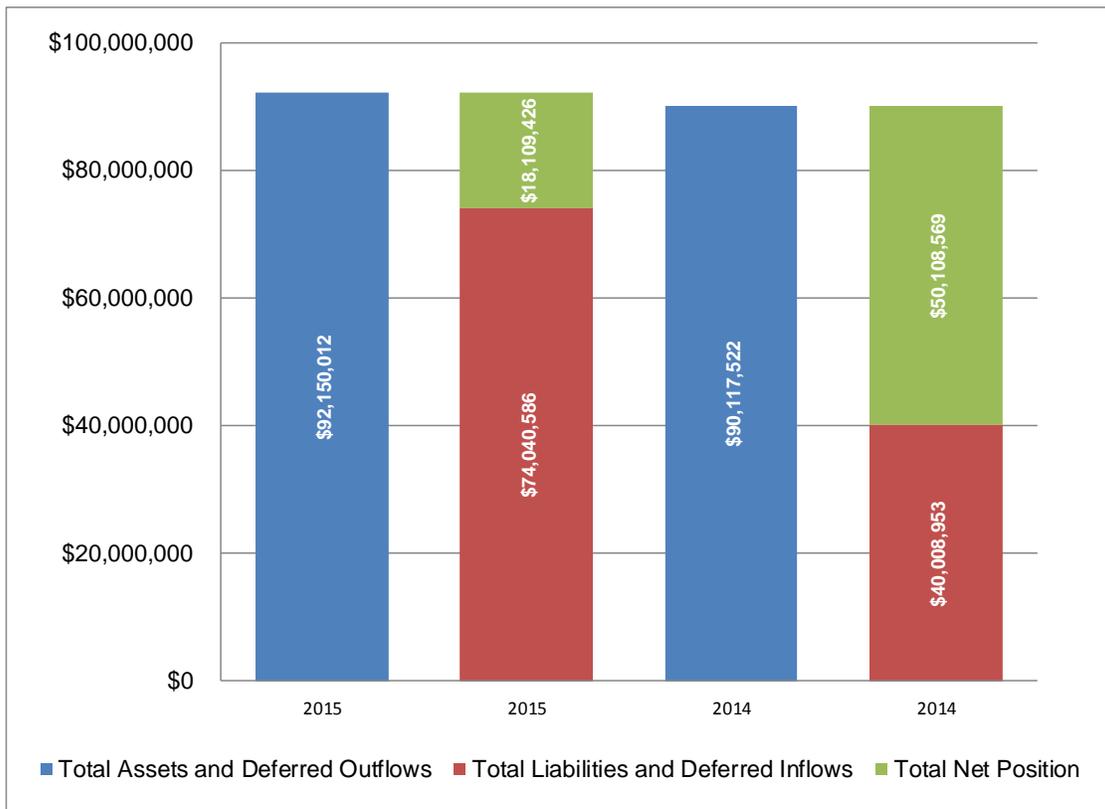
Summary of Net Position

Assets	2015	2014	Increase/ (Decrease)	Percent Change
Current assets	\$ 19,318,788	\$ 17,545,834	\$ 1,772,954	10.10%
Capital assets, net	68,433,551	71,236,596	(2,803,045)	-3.93%
Other noncurrent assets	1,239,038	1,234,042	4,996	0.40%
Total assets	88,991,377	90,016,472	(1,025,095)	-1.14%
Deferred Outflows of Resources				
Deferred loss on debt refunding	310,776	101,050	209,726	207.55%
Deferred outflows related to net pension liability	2,847,859	-	2,847,859	0.00%
Total deferred outflows of resources	3,158,635	101,050	3,057,585	3025.81%
Liabilities				
Current liabilities	4,274,473	4,674,964	(400,491)	-8.57%
Noncurrent liabilities	66,927,500	35,333,989	31,593,511	89.41%
Total liabilities	71,201,973	40,008,953	31,193,020	77.97%
Deferred Inflows of Resources				
Deferred inflows related to net pension liability	2,838,613	-	2,838,613	0.00%
Net Position				
Net investment in capital assets	34,523,088	35,334,236	(811,148)	-2.30%
Restricted - nonexpendable	267,871	267,871	-	0.00%
Restricted - expendable	2,948,108	3,078,575	(130,467)	-4.24%
Unrestricted	(19,629,641)	11,427,887	(31,057,528)	-271.77%
Total net position	\$ 18,109,426	\$ 50,108,569	\$ (31,999,143)	-63.86%

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

- Current assets change of \$1.8 million is primarily due to an increase in cash and cash equivalents of \$2.0 million during the fiscal year. Enrollment growth in fall and spring semesters contributed to the increase.
- Capital assets decreased by \$2.8 million due to annual depreciation.
- Deferred outflows increased \$3.1 million primarily due to the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and represent the Campus' contributions after the measurement date and differences between the actual and expected experience in relation to the net pension liability. See Note 5, Pension Plans, for more information.
- Noncurrent liabilities increased \$31.6 million due to:
 - \$2.0 million decrease in long-term bonds payable due to scheduled payments.
 - Addition of \$33.5 million net pension liability for the Campus' proportionate share of the State's net pension liability due to the implementation of GASB Statement No. 68. See Notes 1 and 5 for more information.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position



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

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

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

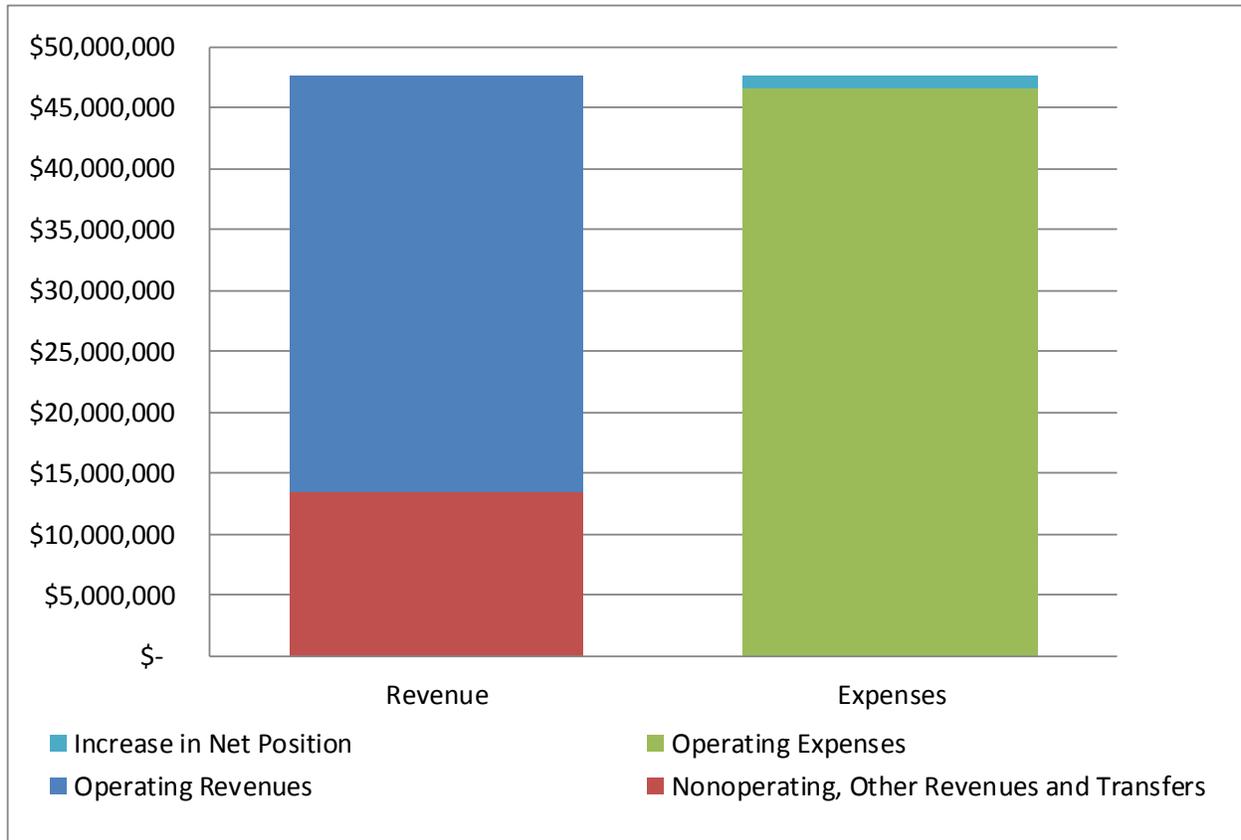
UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2015	2014	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	\$ 32,211,779	\$ 30,015,169	\$ 2,196,610	7.32%
Less: scholarship allowance	(13,869,829)	(13,651,002)	(218,827)	1.60%
Federal grants and contracts	1,709,659	1,509,186	200,473	13.28%
State grants and contracts	5,843,488	5,829,576	13,912	0.24%
Local grants and contracts	115,563	176,670	(61,107)	-34.59%
Nongovernmental grants and contracts	185,785	161,183	24,602	15.26%
Sales and services of educational and other activities	1,619,263	1,668,174	(48,911)	-2.93%
Sales and services of auxiliary enterprises, net	5,970,882	5,650,545	320,337	5.67%
Interest collected on student loans	12,536	15,834	(3,298)	-20.83%
Other fees	182,341	169,646	12,695	7.48%
Other operating revenues	212,483	70,887	141,596	199.75%
Total operating revenues	<u>34,193,950</u>	<u>31,615,868</u>	<u>2,578,082</u>	<u>8.15%</u>
Operating Expenses:				
Salaries and wages	22,003,245	21,341,828	661,417	3.10%
Fringe benefits	7,437,294	6,601,729	835,565	12.66%
Services and supplies	11,570,225	10,381,492	1,188,733	11.45%
Utilities	1,695,283	1,790,753	(95,470)	-5.33%
Scholarships and fellowships	657,195	910,417	(253,222)	-27.81%
Depreciation expense	3,225,127	3,248,171	(23,044)	-0.71%
Total operating expenses	<u>46,588,369</u>	<u>44,274,390</u>	<u>2,313,979</u>	<u>5.23%</u>
Operating loss	(12,394,419)	(12,658,522)	264,103	-2.09%
Net nonoperating revenues and (expenses)	<u>12,664,775</u>	<u>13,038,370</u>	<u>(373,595)</u>	<u>-2.87%</u>
Income before other revenues and transfers	270,356	379,848	(109,492)	-28.83%
Other revenues and transfers	759,196	14,471	744,725	5146.33%
Increase in net position	<u>1,029,552</u>	<u>394,319</u>	<u>635,233</u>	<u>161.10%</u>
Net position at beginning of year, as originally stated	50,108,569	49,714,250	394,319	0.79%
Restatement	(33,028,695)	-	(33,028,695)	0.00%
Net Position at beginning of year, as restated	<u>17,079,874</u>	<u>49,714,250</u>	<u>(32,634,376)</u>	<u>-65.64%</u>
Net position at end of year	<u>\$ 18,109,426</u>	<u>\$ 50,108,569</u>	<u>\$ (31,999,143)</u>	<u>-63.86%</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
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:

- Student tuition and fees, net of the scholarship allowance, increase of \$2.0 million is due to a 3.17% tuition and required fees increase coupled with positive growth in enrollment and the new Palmetto College courses.
- A net increase of \$178,000 in grants and contracts is primarily due to a new Federal grant for the STEM Forward program.
- The \$320,000 increase in sales and services of auxiliary enterprises is due to additional housing revenues driven by increased enrollment and fees.
- Operating expenses increased \$2.3 million (5.23%) over the prior year. Salaries and fringe benefits increased due to the addition of faculty and staff as well as increases in employer retirement contributions and health insurance. Additional increases in fringe benefits of \$456,000 were due to the implementation of GASB Statement No. 68. Services and supplies expense increased due to purchases of new information technology equipment and building repairs.
- Other revenues and transfers increased \$745,000 due to state capital appropriations for deferred maintenance and capital grants and gifts.

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

STATEMENT OF CASH FLOWS

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

- Operating 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.

ADOPTION OF NEW ACCOUNTING STANDARD

The Campus implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, in the fiscal year ended June 30, 2015. The implementation of the statement required the University to record beginning net pension liability and the effects on unrestricted net position of contributions made by the University during the measurement period (fiscal year ended June 30, 2014). To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred inflows and resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to beginning net position as of June 30, 2015.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, the Campus did not start or complete any major capital projects.

The Campus' indebtedness consists of bonds payable of \$34 million and notes payable of \$234,436. During the year, the Campus issued \$3.6 million in state institution bonds to partially refund the Series 2006B State Institution bonds.

For more detailed information on capital asset and debt activity please refer to Note 4 – Capital Assets and Note 9 - Bonds and Notes Payable in the Notes to the Financial Statements.

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 strong financial performance despite significant reductions in state appropriations following the Great Recession for the period 2008 through 2012. The Campus received additional recurring state funding to begin the 2015 fiscal year to support a portion of state employee health insurance increases and provide parity funding to address the base state funding per student inequities.

The State finished the 2015 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. The Campus is a beneficiary of the seventh straight year of state surpluses, as excess lottery proceeds totaling \$81,573 were made available for operations and critical equipment replacements in 2015.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Net Position
June 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$	14,318,749
Restricted - cash and cash equivalents		3,210,538
Accounts receivable, net		1,158,841
Capital improvement bonds proceeds receivable		3,812
Inventories		417,641
Prepaid items		124,543
Funds due from others		<u>84,664</u>
Total current assets		<u>19,318,788</u>

Noncurrent assets:

Restricted - cash and cash equivalents		385,968
Restricted - federal student loans receivable		853,070
Capital assets, net of accumulated depreciation		<u>68,433,551</u>
Total noncurrent assets		<u>69,672,589</u>
Total assets		<u>88,991,377</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding		310,776
Deferred outflows related to net pension liability		<u>2,847,859</u>
Total deferred outflows of resources		<u>3,158,635</u>

LIABILITIES

Current liabilities:

Accounts payable		116,736
Retainage payable - current portion		5,186
Accrued interest payable		224,192
Accrued payroll and related liabilities		183,918
Accrued compensated absences - current portion		583,680
Bonds and notes payable - current portion		2,098,357
Unearned revenues		895,702
Deposits		136,994
Other liabilities		5,483
Funds held for others		<u>24,225</u>
Total current liabilities		<u>4,274,473</u>

Noncurrent liabilities:

Accrued compensated absences		440,320
Federal loan liability		843,691
Bonds and notes payable		32,149,405
Net pension liability		<u>33,494,084</u>
Total noncurrent liabilities		<u>66,927,500</u>
Total liabilities		<u>71,201,973</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net pension liability		<u>2,838,613</u>
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NET POSITION

Net investment in capital assets		34,523,088
Restricted for:		
Nonexpendable		267,871
Expendable		
Scholarships, research, instruction, and other		205,071
Loans		126,215
Capital projects		2,616,822
Unrestricted		<u>(19,629,641)</u>
Total net position		<u>\$ 18,109,426</u>

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2015

OPERATING REVENUES

Student tuition and fees (\$1,328,752 pledged for bonds)	\$ 32,211,779
Less: scholarship allowance	(13,869,829)
Federal grants and contracts	1,709,659
State grants and contracts	5,843,488
Local grants and contracts	115,563
Nongovernmental grants and contracts	185,785
Sales and services of educational and other activities	1,619,263
Sales and services of auxiliary enterprises (\$2,444,506 pledged for bonds)	6,362,998
Less: scholarship allowance	(392,116)
Interest collected on student loans	12,536
Other fees	182,341
Other operating revenues	<u>212,483</u>
Total operating revenues	<u>34,193,950</u>

OPERATING EXPENSES

Salaries and wages	22,003,245
Fringe benefits	7,437,294
Services and supplies	11,570,225
Utilities	1,695,283
Scholarships and fellowships	657,195
Depreciation expense	<u>3,225,127</u>
Total operating expenses	<u>46,588,369</u>
Operating loss	<u>(12,394,419)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	7,553,845
Federal grants	5,736,447
Gifts	980,261
Investment income	39,821
Endowment income	3,550
Loss on disposal of capital assets	(120,679)
Interest on capital asset related debt	<u>(1,528,470)</u>
Net nonoperating revenues	<u>12,664,775</u>
Income before other revenues and transfers	<u>270,356</u>
State capital appropriations	319,130
Capital grants and gifts	155,482
Transfers from other campuses, net	<u>284,584</u>
Change in net position	<u>1,029,552</u>

NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	50,108,569
Restatement	<u>(33,028,695)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>17,079,874</u>
NET POSITION, END OF YEAR	<u>\$ 18,109,426</u>

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Cash Flows
For the year ended June 30, 2015

OPERATING ACTIVITIES

Student tuition and fees	\$ 18,254,789
Research grants and contracts	7,969,459
Sales and services of educational and other activities	1,607,431
Sales and services of auxiliary enterprises	6,025,837
Student loans disbursed	(145,235)
Student loans collected	160,164
Interest collected on student loans	12,536
Inflows from federal direct student loans	17,193,233
Outflows from federal direct student loans	(17,092,818)
Payments to employees for services	(22,096,025)
Payments for employee benefits	(6,975,267)
Payments to suppliers	(13,286,086)
Payments to students for scholarships and fellowships	(657,195)
Other receipts	395,136
Inflows from agency funds	187,149
Outflows from agency funds	(211,560)
	<u>(8,658,452)</u>
Net cash used for operating activities	<u>(8,658,452)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	7,553,845
Federal grants	5,736,447
Gifts and grants	988,655
Transfers from other campuses, net	284,584
Federal loan liability	8,311
	<u>14,571,842</u>
Net cash provided by noncapital financing activities	<u>14,571,842</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	4,303,709
State capital appropriations	315,318
Capital grants and gifts	(664)
Purchase and construction of capital assets	(751,230)
Principal paid on capital asset related debt	(6,008,741)
Interest paid on capital asset related debt	(1,797,995)
	<u>(3,939,603)</u>
Net cash used for capital and related financing activities	<u>(3,939,603)</u>

INVESTING ACTIVITIES

Investment income	41,350
Endowment income	3,550
	<u>44,900</u>
Net cash provided by investing activities	<u>44,900</u>

Net increase in cash and cash equivalents 2,018,687

Cash and cash equivalents, beginning of year 15,896,568

Cash and cash equivalents, end of year \$ 17,915,255

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 14,318,749
Restricted - cash and cash equivalents, current	3,210,538
Restricted - cash and cash equivalents, noncurrent	385,968
	<u>\$ 17,915,255</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Cash Flows
For the year ended June 30, 2015

Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (12,394,419)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	3,225,127
Accrued benefits related to net pension liability	456,144
Student loans cancelled	3,175
Change in current assets and liabilities	
Accounts receivable, net	186,714
Student loans receivable	14,929
Inventories	(31,370)
Prepaid items	7,617
Accrued payroll	(41,074)
Accrued benefits	5,883
Accrued compensated absences	(51,706)
Unearned revenues	(124,943)
Deposits	9,155
Other liabilities	312
Funds held for others	76,004
	<hr/>
Net cash used for operating activities	<u>\$ (8,658,452)</u>
NONCASH TRANSACTIONS	
Gifts of capital assets reducing proceeds of capital grants and gifts	<u>\$ 156,146</u>
Loss on disposal of capital assets, net	<u>\$ (120,679)</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina - Aiken (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 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. The University is a component unit of the State of South Carolina (the State). As a discretely presented component unit of the State, 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 Campus 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 Campus' 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 noncurrent 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 - AIKEN
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.

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

Noncurrent Cash - Noncurrent cash primarily consists 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.

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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 2015.

Unearned Revenues and Deposits - Unearned revenues include amounts billed for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned 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; (3) net pension liability; and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Deferred Outflows of Resources - the consumption of net position that is applicable to future reporting periods. The Campus' deferred outflows of resources consist of (1) Deferred loss on debt refunding – the defeasance of previously outstanding bonds resulted in deferred refunding losses. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter; (2) Net pension liability - decreases in net pension liability that were not included in pension expense are reported as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Deferred Inflows of Resources - the acquisition of net position that is applicable to future reporting periods. The Campus' deferred inflows of resources consist of increases in the net pension liability that were not included in pension expense.

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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
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 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 Campus' 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 Campus 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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
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 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.

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, 2015.

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, 2015, \$156,141 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

As of June 30, 2015, the University of South Carolina Educational Foundation (a discretely presented component unit of the University) held \$22,985,234 in endowment funds for the Campus.

Adoption of New Accounting Standard - Effective for the fiscal year ending June 30, 2015, the Campus adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension - An Amendment of GASB Statement No. 27*. As a result of this implementation, the Campus will now report its portion of the State of South Carolina's net pension liability. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to beginning net position. The effect of this implementation is discussed in Note 5.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

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

Most deposits and investments 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 and investments within the notes to the statement of net position amounts:

Statement of Net Position		Notes	
Cash and cash equivalents (current)	\$ 14,318,749	Cash on hand	\$ 12,720
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	17,900,064
Debt service	163,748	Other deposits	2,471
Scholarship, research, instruction, and other	330,622		
University administered loans	2,000		
Capital projects	2,714,168		
	<u>3,210,538</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	267,871		
Federal student loans	118,097		
	<u>385,968</u>		
	<u>\$ 17,915,255</u>		<u>\$ 17,915,255</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, 2015, \$63,472 of the \$17,900,064 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

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

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student and sponsors	\$ 1,148,728
Auxiliary enterprises	343,670
Federal grants and contracts	128,296
Non-governmental grants and contracts	11,119
Accrued interest	5,357
	1,637,170
Less allowance for doubtful accounts	(478,329)
Accounts receivable, net	\$ 1,158,841

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 Campus ceased to participate in the programs.

As the Campus determines that loans are uncollectible, the loans are assigned to the federal agency administrating the loan programs.

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 Campus is 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 Campus has \$242,441 outstanding of capital reserve fund appropriations. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land and improvements	\$ 619,517	\$ -	\$ -	\$ 619,517
Construction in progress	407,920	3,149	-	411,069
Works of art and historical treasures	-	36,196	-	36,196
	<u>1,027,437</u>	<u>39,345</u>	<u>-</u>	<u>1,066,782</u>
Total capital assets not being depreciated				
Other capital assets				
Land improvements	3,001,826	83,336	-	3,085,162
Buildings and improvements	107,180,500	15,154	-	107,195,654
Machinery, equipment and other	4,888,334	341,425	726,575	4,503,184
Vehicles	321,037	63,501	13,554	370,984
	<u>115,391,697</u>	<u>503,416</u>	<u>740,129</u>	<u>115,154,984</u>
Total capital assets at historical cost				
Less accumulated depreciation for:				
Land improvements	2,065,158	74,979	-	2,140,137
Buildings and improvements	39,261,873	2,837,731	-	42,099,604
Machinery, equipment and other	3,606,880	292,059	605,896	3,293,043
Vehicles	248,627	20,358	13,554	255,431
	<u>45,182,538</u>	<u>3,225,127</u>	<u>619,450</u>	<u>47,788,215</u>
Total accumulated depreciation				
Other capital assets, net	<u>70,209,159</u>	<u>(2,721,711)</u>	<u>120,679</u>	<u>67,366,769</u>
Capital assets, net	<u>\$ 71,236,596</u>	<u>\$ (2,682,366)</u>	<u>\$ 120,679</u>	<u>\$ 68,433,551</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues its own Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. A copy of PEBA's CAFR is available on PEBA's website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to South Carolina Public Employee Benefit Authority, Retirement Systems Finance, 202 Arbor Lake Dr., Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership - Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers, such as USC, are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class III member.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (ORP), which is a defined contribution plan. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for ORP benefits. Rather, the benefits are the liability of the retirement systems for financial statement purposes.

Employee and Employer contributions to the ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8.0 percent) and a portion of the employer contribution (5.0 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

Benefits - Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of services, and average final compensation. A brief summary of benefit terms for each system is presented below.

SCRS – A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years of credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Benefits (continued) - 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. An incidental death benefit is also available to beneficiaries of active and retired members.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching the age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS - A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of credited service regardless of age. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of credited service regardless of age. Both Class II and Class III members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Disability annuity benefits are available 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 can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits. 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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Contributions - Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required **employee** contribution rates for fiscal year 2014-2015 are as follows:

<u>SCRS</u>	
Employee Class II	8.00% of earnable compensation
Employee Class III	8.00% of earnable compensation
<u>ORP</u>	
	8.00% of earnable compensation
<u>PORS</u>	
Employee Class I	\$21 per month
Employee Class II	8.41% of earnable compensation
Employee Class III	8.41% of earnable compensation

Required **employer** contribution rates for fiscal year 2014-2015 are as follows:

<u>SCRS</u>	
Employer Class II	10.75% of earnable compensation
Employer Class III	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>ORP</u>	
Employer Contribution	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>PORS</u>	
Employer Class I	7.80% of earnable compensation
Employer Class II	13.01% of earnable compensation
Employer Class III	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Contributions (continued) - Of the ORP employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

SCRS - The Campus' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2015, 2014, and 2013 were:

Fiscal Year Ended	Retirement		Incidental Death	
	Rate	Contribution	Rate	Contribution
2015	10.750%	\$1,281,000	0.150%	\$18,000
2014	10.450%	\$1,239,000	0.150%	\$18,000
2013	10.450%	\$1,194,000	0.150%	\$18,000

PORS - The Campus' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2015, 2014, and 2013 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2015	13.010%	\$36,000	0.200%	\$600	0.200%	\$600
2014	12.440%	\$37,000	0.200%	\$600	0.200%	\$600
2013	11.900%	\$41,000	0.200%	\$700	0.200%	\$700

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 and a member's participation may not continue after this date. 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.

Net Pension Liability - At June 30, 2015, the Campus reported liabilities of \$33,019,029 and \$475,055 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The Campus' proportionate shares of the net pension liabilities were based on the Campus' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Campus' proportionate shares of the SCRS and PORS plans were 0.1917783% and 0.024815%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2013, respectively.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Pension Expense - For the year ended June 30, 2015, the Campus recognized pension expense of \$2,314,177 and \$41,561 for SCRS and PORS, respectively.

Deferred inflows of resources and deferred outflows of resources - At June 30, 2015, the Campus reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

South Carolina Retirement System

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 935,587	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,783,646
University contributions subsequent to the measurement date	1,862,312	-
Total	<u>\$ 2,797,899</u>	<u>\$ 2,783,646</u>

Police Officers Retirement System

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,677	\$ -
Net difference between projected and actual earnings on pension plan investments	-	54,967
University contributions subsequent to the measurement date	37,283	-
Total	<u>\$ 49,960</u>	<u>\$ 54,967</u>

The \$1,862,312 and \$37,283 reported as deferred outflows of resources related to pensions resulting from Campus contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2015 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2016.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Deferred inflows of resources and deferred outflows of resources (continued) - Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

	SCRS
Year ended June 30:	
2016	\$ (406,525)
2017	(406,525)
2018	(406,525)
2019	(628,484)
	\$ (1,848,059)

	PORS
Year ended June 30:	
2016	\$ (10,454)
2017	(10,454)
2018	(10,454)
2019	(10,928)
	\$ (42,290)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013 projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification by GRS.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Actuarial Assumptions and Methods (continued)

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013 valuations for SCRS and PORS.

	SCRS	PORS
	Entry age	Entry age
Actuarial cost method		
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters, and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Actuarial Assumptions and Methods (continued)

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, the statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Short Term			
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income			
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	2.8%	0.11%
Global Fixed Income			
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	31.0%	7.8%	2.42%
Global Tactical Asset Allocation	10.0%	5.1%	0.51%
Alternatives			
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	100.0%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to changes in the discount rate.

Sensitivity Analysis - The following table presents the Campus' proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.50 percent, as well as what the Campus' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.5%)	Current Discount Rate (7.5%)	1.00% Increase (8.5%)
SCRS	\$42,727,092	\$33,019,029	\$24,917,540
PORS	663,878	475,055	318,821

Pension Plan Fiduciary Net Position - The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2014, net pension liability amounts for SCRS and PORS are as follows (amounts expressed in thousands):

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension
SCRS	\$42,955,205,796	\$25,738,521,026	\$17,216,684,770	59.9%
PORS	5,899,529,434	3,985,101,996	1,914,427,438	67.5%

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Pension Plan Fiduciary Net Position (continued) - The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing the financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publically available on PEBA's Retirement Benefits' website.

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

Restatement for Adoption of New Accounting Standard - The Campus implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, in the fiscal year ended June 30, 2015. The implementation of the statement required the Campus to record beginning net pension liability and the effects on unrestricted net position of contributions made by the University during the measurement period (fiscal year ended June 30, 2014). As a result, ending unrestricted net position for the Campus for the year ended June 30, 2014 decreased by \$33,028,695. This decrease resulted in the restatement of unrestricted net position to a deficit balance of \$21,600,808 for the year ended June 30, 2014.

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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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, 5.0% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$1,001,000 and \$971,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2015 and 2014, 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, 2015 and 2014. The Campus recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$10,000 and \$10,000 for the years ended June 30, 2015 and 2014, 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.

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 \$579 for capital and \$346,001 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 having remaining terms of more than one year. In the current fiscal year, the Campus incurred expenses of \$121,814 for office copier contingent rentals on a cost per copy basis.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
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, 2015 Balance</u>	<u>Debt Retired in Fiscal Year 2015</u>
State Institution Bonds					
Series 2006B	\$ 6,900,000	5.25%	04/01/16	\$ 320,000	\$ 4,365,000
Series 2009B	2,515,000	3.0% to 5.0%	04/01/29	1,895,000	105,000
Series 2011A Refunding	675,000	2.25% to 5.0%	03/01/22	455,000	55,000
Series 2011E	860,000	2.25% to 5.0%	03/01/31	740,000	30,000
Series 2012A Refunding	1,268,000	3.0% to 5.0%	04/01/23	925,000	146,000
Series 2015B Refunding	3,640,000	4.0% to 5.0%	04/01/26	3,640,000	-
Total State Institution Bonds				<u>7,975,000</u>	<u>4,701,000</u>
Revenue Bonds					
Series 2006A	13,995,000	4.0% to 4.375%	06/01/26	9,020,000	640,000
Series 2008A	16,110,000	4.0% to 5.25%	06/01/38	14,060,000	335,000
Series 2012 Refunding	2,085,000	3.0% to 5.0%	05/01/20	1,530,000	280,000
Total Revenue Bonds				<u>24,610,000</u>	<u>1,255,000</u>
Subtotal bonds payable				32,585,000	5,956,000
Plus unamortized bond premiums				1,428,326	79,139
Total Bonds Payable				<u>\$ 34,013,326</u>	<u>\$ 6,035,139</u>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2015 was \$1,328,752 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the Campus 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 Campus 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 2015 were \$2,444,506 from sales and services of auxiliary enterprises.

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

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

On May 1, 2015 the Campus issued \$3,640,000 of Series 2015B State Institution bonds to partially refund the Series 2006B State Institution bonds maturing on April 1, 2026 and to be called on October 1, 2016. The refunding transactions resulted in a deferred loss on refunding of \$224,126, an aggregate debt payment reduction of \$242,134 over the next 11 years and an economic gain of \$219,128. The refunding bonds were used to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for retirement of the \$4,284,107 of refunded University bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

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			
2016	\$ 675,000	\$ 354,300	\$ 1,029,300
2017	598,000	337,021	935,021
2018	619,000	311,421	930,421
2019	639,000	287,171	926,171
2020	664,000	256,946	920,946
2021-2025	3,330,000	801,376	4,131,376
2026-2030	1,385,000	154,750	1,539,750
2031	65,000	3,250	68,250
	<u>\$ 7,975,000</u>	<u>\$ 2,506,235</u>	<u>\$ 10,481,235</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds			
2016	\$ 1,300,000	\$ 1,143,781	\$ 2,443,781
2017	1,350,000	1,091,231	2,441,231
2018	1,405,000	1,033,631	2,438,631
2019	1,460,000	977,431	2,437,431
2020	1,520,000	915,081	2,435,081
2021-2025	6,810,000	3,647,638	10,457,638
2026-2030	4,035,000	2,261,406	6,296,406
2031-2035	3,880,000	1,377,950	5,257,950
2036-2038	2,850,000	304,500	3,154,500
	<u>\$ 24,610,000</u>	<u>\$ 12,752,649</u>	<u>\$ 37,362,649</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Notes Payable - Notes payable consisted of the following:

Note payable to acquire energy savings equipment and lighting retrofit, dated December 2008, payable in annual installments of \$51,581 subject to amount drawn at any given time, matures April 2020, fixed interest rate of 3.00%.

\$ 234,436

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2016	\$ 44,218	\$ 7,033	\$ 51,251
2017	45,544	5,707	51,251
2018	46,910	4,340	51,250
2019	48,318	2,933	51,251
2020	49,446	1,804	51,250
Total	\$ 234,436	\$ 21,817	\$ 256,253

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2014	Additions	Reductions	June 30, 2015	Due Within One Year	Long Term Portion
Bonds Payable:						
State Institution Bonds	\$ 9,036,000	\$ 3,640,000	\$ 4,701,000	\$ 7,975,000	\$ 675,000	\$ 7,300,000
Revenue Bonds	25,865,000	-	1,255,000	24,610,000	1,300,000	23,310,000
Subtotal Bonds Payable	34,901,000	3,640,000	5,956,000	32,585,000	1,975,000	30,610,000
Unamortized Bond Premiums	843,756	663,709	79,139	1,428,326	79,139	1,349,187
Total Bonds Payable	35,744,756	4,303,709	6,035,139	34,013,326	2,054,139	31,959,187
Notes Payable	287,177	-	52,741	234,436	44,218	190,218
Total Bonds and Notes Payable	\$ 36,031,933	\$ 4,303,709	\$ 6,087,880	\$ 34,247,762	\$ 2,098,357	\$ 32,149,405
Accrued Compensated Absences	\$ 1,075,706	\$ 707,873	\$ 759,579	\$ 1,024,000	\$ 583,680	\$ 440,320

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

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 11 - RELATED PARTY

The Aiken County Commission for Higher Education (the Commission) is a separately chartered legal entity which does not meet the criteria established by GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, 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 under Act 103 of the 1961 Session of the General Assembly of South Carolina. The Commission is composed of eight members who are appointed by the Governor on the recommendation of a majority of the Aiken County Legislative Delegation. In addition, the Superintendent of Education for Aiken County and the Chair of the Aiken Commission for Technical Education are ex-officio members of the Commission. The Commission's purpose is the establishment and maintenance of an institution of higher education in Aiken County and it is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and generally, to take such actions in its name necessary to secure for Aiken County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Aiken County to accomplish these objectives. During the year ended June 30, 2015, the Commission made grants to the Campus totaling \$92,615 for campus maintenance and enhancements. The Campus provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. The Commission leases its land and buildings to the Campus for \$1 annually. At June 30, 2015, the Commission had a net position of \$1,979,148.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 12 - RISK MANAGEMENT

The Campus has implemented a comprehensive Enterprise Risk Management (ERM) and Insurance program which incorporates the fundamentals of risk identification, risk assessment, risk treatment, risk monitoring and risk review. The Campus has established an ERM process using the guidance of International Standards Organization (ISO) 3100-2009 "Risk Management - Principals and Guidelines". ISO provides principles, framework and process for managing any form of risk in a systematic, transparent and credible manner. The ERM program is committed to: preventing adverse claim experience through training, education and inspection; advising and assisting university managers in identifying potential risks and losses; advising and assisting university managers in implementing controls to mitigate risks; and procuring appropriate insurance policies. The Campus 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.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Notes to the Financial Statements

NOTE 12 - RISK MANAGEMENT, Continued

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 not exceeded the Campus' insurance coverage in any of the past three years.

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	\$ 12,086,756	\$ 3,903,015	\$ 1,712,155	\$ -	\$ -	\$ -	\$ 17,701,926
Research	128,343	23,773	640,311	-	684	-	793,111
Public service	1,316,527	372,826	710,668	-	1,013	-	2,401,034
Academic support	1,948,337	626,960	1,244,813	-	-	-	3,820,110
Student services	2,983,472	1,006,616	1,812,408	-	858	-	5,803,354
Institutional support	1,946,685	652,528	1,178,861	-	37	-	3,778,111
Operation & plant maintenance	959,444	376,915	2,097,038	1,209,799	-	-	4,643,196
Auxiliary enterprises	633,681	164,646	2,166,880	485,484	3,330	-	3,454,021
Scholarships and fellowships	-	310,015	7,091	-	651,273	-	968,379
Depreciation	-	-	-	-	-	3,225,127	3,225,127
Total operating expenses	<u>\$ 22,003,245</u>	<u>\$ 7,437,294</u>	<u>\$ 11,570,225</u>	<u>\$ 1,695,283</u>	<u>\$ 657,195</u>	<u>\$ 3,225,127</u>	<u>\$ 46,588,369</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Schedule of the Campus' Contributions
For the Year Ended June 30, 2015

	SCRS	
	2015	2014
Contractually required contribution	\$ 1,862,312	\$ 1,845,563
Contributions made to pension plan	1,862,312	1,845,563
Contribution deficiency (excess)	\$ -	\$ -
University's covered employee payroll during the measurement period	\$ 11,860,662	\$ 11,544,762
Contributions as a portion of covered employee payroll	15.70%	15.99%

	PORS	
	2015	2014
Contractually required contribution	\$ 37,283	\$ 38,322
Contributions made to pension plan	37,283	38,322
Contribution deficiency (excess)	\$ -	\$ -
University's covered employee payroll during the measurement period	\$ 299,281	\$ 344,177
Contributions as a portion of covered employee payroll	12.46%	11.13%

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Schedule of the Campus' Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2015

	SCRS	
	2015	2014
University's proportion of the net pension liability	0.1917783%	0.1917783%
University's proportionate share of the net pension liability	\$ 33,019,029	\$ 34,398,183
University's covered-employee payroll	\$ 11,912,659	\$ 11,860,662
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	277.18%	290.02%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	59.90%

	PORS	
	2015	2014
University's proportion of the net pension liability	0.024815%	0.024815%
University's proportionate share of the net pension liability	\$ 475,055	\$ 514,397
University's covered-employee payroll	\$ 279,614	\$ 299,281
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.90%	171.88%
Plan fiduciary net position as a percentage of the total pension liability	67.50%	67.50%



**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 - Aiken (the Campus), a campus of the University of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated November 20, 2015.

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 opinion 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 Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
November 20, 2015