

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**

UNIVERSITY OF SOUTH CAROLINA COLUMBIA AND REGIONALS

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, which represent approximately 79 percent, 95 percent, and 96 percent, respectively, of the assets, net position/assets, and revenues of the Campuses' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campuses are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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. The financial statements of the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campuses as of June 30, 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of the Campuses' Proportionate Share of the Net Pension Liability, and the Schedule of the Campuses' Contributions, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campuses' internal control over financial reporting and compliance.

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

Columbia, South Carolina
October 25, 2016

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. Management's Discussion and Analysis provides an overview and analysis of the Campuses' financial activities for the fiscal year ended June 30, 2016, with comparative information for the fiscal year ended June 30, 2015. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2016 and 2015 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses. This discussion will not include the discretely presented component units, the South Carolina Research Foundation, the University of South Carolina School of Medicine Educational Trust, the University of South Carolina Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina - Lancaster.

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

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

STATEMENT OF NET POSITION

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

- Assets - Property that we own and what we are owed by others.
- 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
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(Unaudited)**

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

- Net investment in capital assets - Provides the institution's equity in property, plant, and equipment owned by the institution.
- Restricted net position -
 - a. Nonexpendable restricted net position consists solely of the institution's permanent endowment funds and 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.

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

Summary of Net Position

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 652,167,935	\$ 637,420,205	\$ 14,747,730	2.31%
Capital assets, net	1,178,481,599	1,137,968,678	40,512,921	3.56%
Other noncurrent assets	<u>112,253,755</u>	<u>113,286,297</u>	<u>(1,032,542)</u>	-0.91%
Total assets	<u>1,942,903,289</u>	<u>1,888,675,180</u>	<u>54,228,109</u>	2.87%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	4,076,021	5,591,098	(1,515,077)	-27.10%
Deferred outflows related to net pension liability	<u>54,126,360</u>	<u>53,230,421</u>	<u>895,939</u>	1.68%
Total deferred outflows of resources	<u>58,202,381</u>	<u>58,821,519</u>	<u>(619,138)</u>	-1.05%
LIABILITIES				
Current liabilities	152,508,833	129,752,732	22,756,101	17.54%
Noncurrent liabilities	<u>1,211,811,704</u>	<u>1,172,868,639</u>	<u>38,943,065</u>	3.32%
Total liabilities	<u>1,364,320,537</u>	<u>1,302,621,371</u>	<u>61,699,166</u>	4.74%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	<u>2,095,233</u>	<u>51,025,457</u>	<u>(48,930,224)</u>	-95.89%
NET POSITION				
Net investment in capital assets	665,670,430	653,864,435	11,805,995	1.81%
Restricted - nonexpendable	82,270,152	81,558,531	711,621	0.87%
Restricted - expendable	126,475,200	118,194,479	8,280,721	7.01%
Unrestricted	<u>(239,725,882)</u>	<u>(259,767,574)</u>	<u>20,041,692</u>	-7.72%
TOTAL NET POSITION	<u>\$ 634,689,900</u>	<u>\$ 593,849,871</u>	<u>\$ 40,840,029</u>	6.88%

- Total assets of the Campuses increased by \$54.2 million due to an increase in capital assets of \$40.5 for continued construction of the new School of Law and athletic facility projects. (See Note 4 – Capital Assets). Furthermore, during fiscal year 2016 the Campuses implemented PeopleSoft Finance. This implementation and related business process changes enabled the Campuses to bill for fixed price contracts based on the contractual arrangement versus cost reimbursable billing methodologies used in prior years.
- Deferred outflows of resources consist of:
 - The unamortized loss on debt refunding. See Note 1, Summary of Significant Accounting Policies, for more information.
 - The Campuses' contributions after the measurement date and differences between the actual and expected experience in relation to the net pension liability recorded for the Campuses' proportionate share of the State of South Carolina's SCRS and PORS net pension liability, due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 5, Pension Plans, for more information.
- The increase in total liabilities of \$61.7 million is attributable to a \$60.1 million increase in net pension liability. Pension investments earned 1.60% during the fiscal year resulting in negative cash flows due to investment earnings not being substantial enough to offset plan costs and benefit payments. See Note 1, Summary of Significant Accounting Policies, for more information. Also, there was an increase in unearned revenue of \$8.1 million due to efficiencies gained through the change in billing methodologies as a result of the PeopleSoft implementation. Furthermore, bonds and notes payable decreased by \$14.3 million due to refunding and annual principal payments of bonded debt.

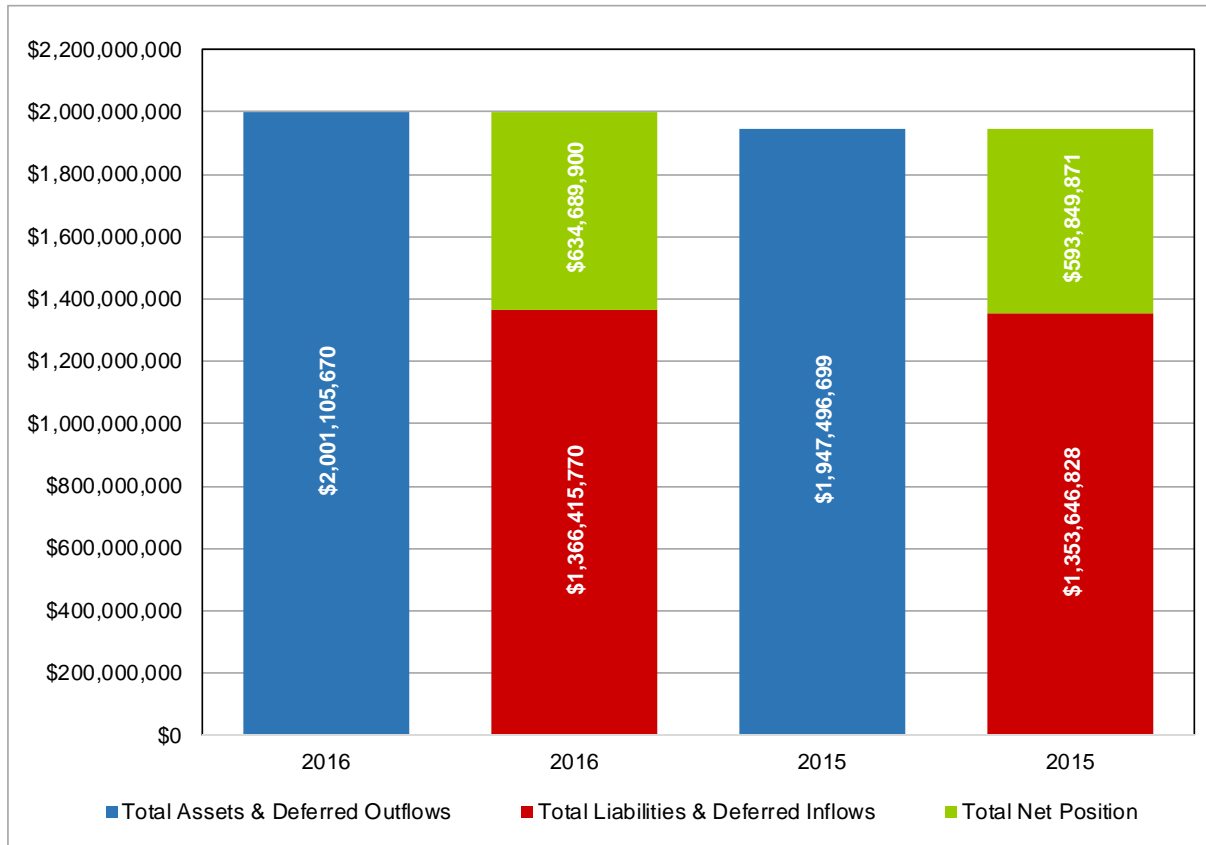
**UNIVERSITY OF SOUTH CAROLINA
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The net position of the Campuses increased during the year by \$40.8 million. The increase is driven by the following:

- \$11.8 million increase in net investment in capital assets - Net investment in capital assets shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets; only the debt issued to finance the University's capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Net investment in capital assets increased due to the start-up and completion of various capital projects, including several athletic facility projects, construction of the new School of Law, academic building renovations and continued upgrades to campus technology systems.
- \$8.3 million increase in expendable restricted - Expendable restricted net position represents resources that are constrained to a particular purpose by externally imposed stipulations. These constraints may be derived from the donor of the resources or from an external entity. Also, restrictions can be imposed as a result of enabling legislation. The majority of the increase in expendable restricted net position is attributed to an increase in the amount expendable for debt service due to timing of the transfer of funds needed to make debt service payments, and an increase in capital project funds due to additional capital appropriations.
- \$20 million increase in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from University operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific University activities including academic and research programs, capital projects and significant upgrades to the campus technology network.

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

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



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid and gifts will result in operating deficits. 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 Campuses, both operating and nonoperating, and the expenses paid by the Campuses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Campuses.

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

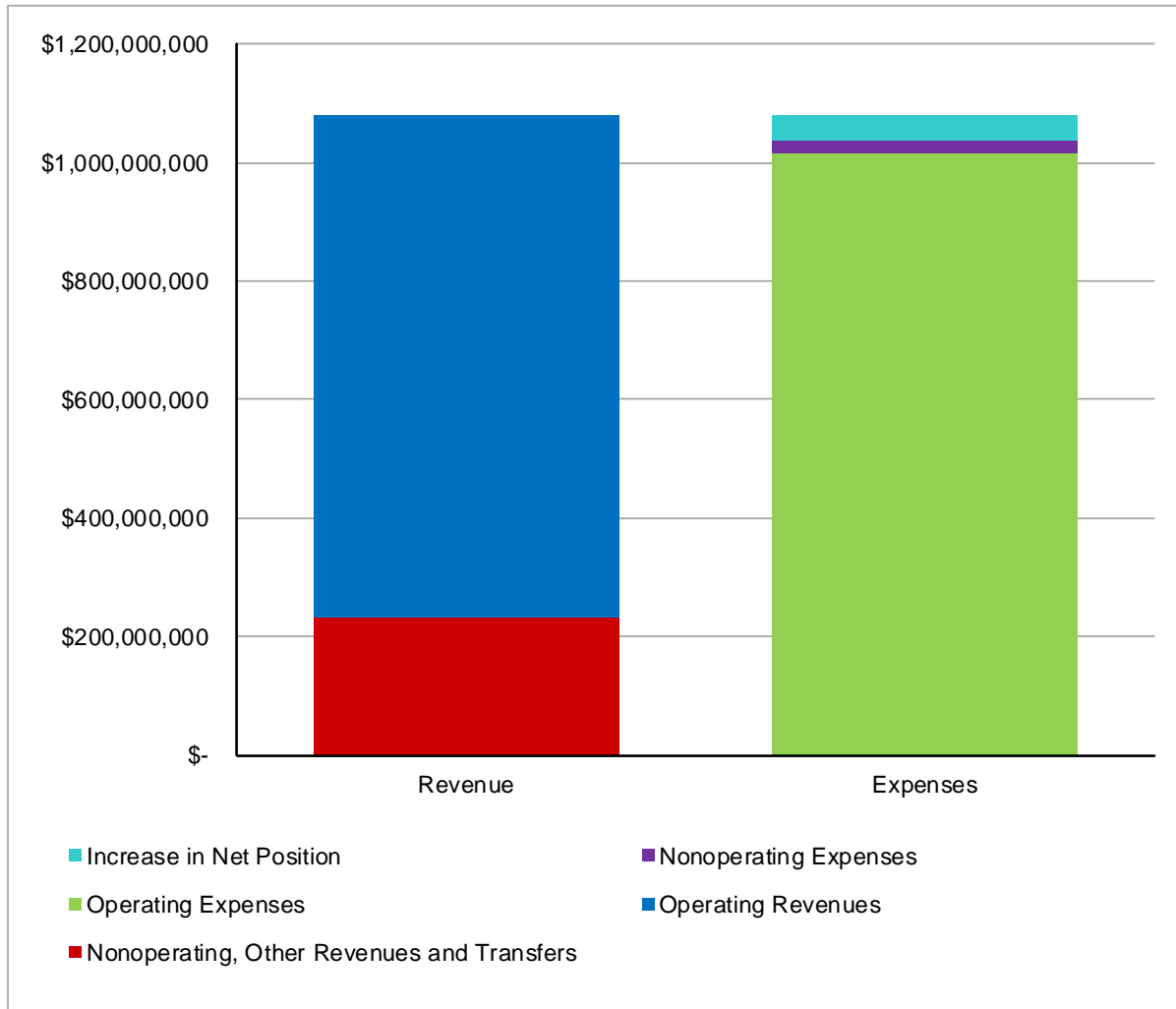
**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)**

Summary of Revenues, Expenses and Changes in Net Position

	2016	2015	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student tuition and fees	\$ 647,974,770	\$ 606,643,873	\$ 41,330,897	6.81%
Less: scholarship allowance	(230,142,907)	(217,991,020)	(12,151,887)	5.57%
Federal grants and contracts	132,706,381	134,927,781	(2,221,400)	-1.65%
State grants and contracts	73,379,395	69,265,455	4,113,940	5.94%
Local grants and contracts	854,453	689,993	164,460	23.84%
Nongovernmental grants and contracts	32,517,818	36,344,616	(3,826,798)	-10.53%
Sales and services of educational and other activities	26,354,098	26,034,508	319,590	1.23%
Sales and services of auxiliary enterprises	150,915,213	137,469,027	13,446,186	9.78%
Less: scholarship allowance	(2,976,638)	(3,729,935)	753,297	-20.20%
Interest collected on student loans	275,195	276,057	(862)	-0.31%
Other fees	9,151,359	9,224,802	(73,443)	-0.80%
Other operating revenues	5,057,808	2,205,598	2,852,210	129.32%
Total operating revenues	846,066,945	801,360,755	44,706,190	5.58%
NONOPERATING REVENUES				
State appropriations	127,288,305	126,116,868	1,171,437	0.93%
Federal grants	30,748,484	32,069,556	(1,321,072)	-4.12%
Gifts	39,220,132	42,521,312	(3,301,180)	-7.76%
Investment income	3,460,573	2,509,688	950,885	37.89%
Endowment income	6,852,437	3,139,708	3,712,729	118.25%
Lease termination agreement	-	31,500,000	(31,500,000)	-100.00%
Total nonoperating revenues	207,569,931	237,857,132	(30,287,201)	-12.73%
Total revenues	1,053,636,876	1,039,217,887	14,418,989	1.39%
OPERATING EXPENSES				
Salaries and wages	506,042,733	488,158,629	17,884,104	3.66%
Fringe benefits	165,646,390	154,124,068	11,522,322	7.48%
Services and supplies	244,309,833	236,627,276	7,682,557	3.25%
Utilities	29,322,198	30,306,546	(984,348)	-3.25%
Scholarships and fellowships	18,696,420	15,522,217	3,174,203	20.45%
Depreciation expense	52,921,422	58,264,861	(5,343,439)	-9.17%
Total operating expenses	1,016,938,996	983,003,597	33,935,399	3.45%
NONOPERATING EXPENSES				
Loss on disposal of capital assets	123,236	2,127,533	(2,004,297)	-94.21%
Interest on capital asset related debt	20,316,637	18,350,186	1,966,451	10.72%
Total nonoperating expenses	20,439,873	20,477,719	(37,846)	-0.18%
Total expenses	1,037,378,869	1,003,481,316	33,897,553	3.38%
Other revenues	24,582,022	37,305,488	(12,723,466)	-34.11%
Change in net position	40,840,029	73,042,059	(32,202,030)	-44.09%
Net position, beginning of year, as originally stated	593,849,871	1,114,746,050	(520,896,179)	-46.73%
Restatement	-	(593,938,238)	593,938,238	-100.00%
Net position, beginning of year, as restated	593,849,871	520,807,812	73,042,059	14.02%
NET POSITION, END OF YEAR	\$ 634,689,900	\$ 593,849,871	\$ 40,840,029	6.88%

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

**Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2016**



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

- An increase of \$44.7 million in total operating revenues is due to the following:
 - Student tuition and fee revenue, net of the scholarship allowance, increased by \$29.2 million primarily due to a 2.90% tuition increase for USC Columbia campus and across regional campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 2.20% in full time equivalent students. The combined tuition and enrollment increase for the Columbia campus accounts for the majority of the fiscal year 2016 change in student tuition and fee revenue.
 - State contracts increased \$4.1 million due to an increase in South Carolina Education Lottery funding for student scholarships.

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- Sales and services of auxiliary enterprises are driven by an increase in Southeastern Conference revenues for the ESPN/SEC television network. There was also a 4.34% increase for Campus housing due to rate increases, and a \$2 million remediation from a contractor for work on the Founder's Park baseball stadium.
- Nonoperating revenues decreased by \$30.3 million despite a modest 1% increase in state appropriations. Gift revenue declined as expected in 2016 following completion in 2015 of the \$1 billion capital campaign. Most significantly, the University completed a lease termination agreement with the Department of Justice National Advocacy Center in 2015. No similar revenue was received in 2016 accounting for the total reduction.
- Operating expenses increased \$33.9 million, 3.45% over the prior year. The majority of the increase, approximately \$29.4 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment, as well as increases in retirement contribution and employer health insurance, and a \$10.3 million adjustment to fringe benefits due to the changes related to net pension liability. Services and supplies increased \$7.7 million due to inflationary and enrollment increases, and on-going upgrades to campus technology systems. Depreciation expense decreased \$5.3 million due to the implementation of a new capital assets module and recategorization of certain assets.

STATEMENT OF CASH FLOWS

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, various projects on the Columbia campus were in progress including construction of the Law School, dormitory remodels, and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including Athletic Village improvements.

The Campuses' indebtedness consists of bonds payable of \$533.3 million. During the current year, \$6.2 million in General Revenue bonds were issued for the renovation of several dormitory buildings and, \$34.0 million in General Revenue Refunding bonds were issued to achieve interest savings.

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.

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

ECONOMIC OUTLOOK

The economic position of the Campuses is loosely tied to that of the State of South Carolina (the State) as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations following the Great Recession for the period 2008 through 2012. The Campuses received additional recurring state funding to begin the 2017 fiscal year to support a portion of state employee pay increases, retirement contribution and health insurance increases. Additional Education and General funding was provided to all campuses to support academic initiatives. Total new operating funding is approximately \$8.5 million and pay and fringe benefit funding of \$5.8 million was provided.

The State finished the 2016 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 State slightly missed the total increased revenue projection and surplus allocations were reduced. These did not directly impact the Campuses. The Campuses were a beneficiary of the eighth straight year of state surpluses, with just more than \$8.3 million in non-recurring state funds capital projects and maintenance projects in 2017. These new funds include \$5 million for a portion of the USC Columbia Honors College facility expected to cost \$15 million and various deferred maintenance projects across the system campuses. The State of South Carolina has not advanced a capital bond bill for higher education since 1999/2000, but continues to make an effort to provide some funding for physical plant needs.

The Campuses' overall financial position remains strong. The Campuses rely on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set each spring. For the 2017 year, the University of South Carolina's tuition increase was 3.25% marking the fifth year of tuition increases at or below that percentage. Tuition increases for the 2017 year are in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuitions for two other public institutions in the State exceed the tuition rate for the USC Columbia campus. System campus tuitions are comparable with similar institutions in the State.

Demand for enrollment and interest in the Campuses remain strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2016 of more than 5,106 students. Preliminary data indicates that this entering class is also the most academically talented in the Campuses' history with an average SAT score of 1215 and an average ACT score of 27.3.

Academic strategies include work with Academic Partnerships to provide marketing, recruiting and retention services primarily for on-line graduate programs. Five fully on-line graduate programs and a newly launched RN to BSN program have provided nearly \$5 million annually in new funds. Another strategy is a partnership with Shorelight that brings high quality international students to campus. With 2016 as year one of the seven year contract, more than 80 new students came to USC Columbia. Projections are to grow the program to more than 250 new students each year.

The Campuses continue to cultivate both student quality and access through innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its fifth year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2016 semester 420 new students are enrolled in the Gamecock Gateway and 227 students from last year's Gateway class are now fully enrolled at USC Columbia. The Gamecock Guarantee program provides access to the lowest income South Carolinians and has served 993 students since its inception in 2008. The average freshman family income of program participants is \$17,174 and gift aid is more than 97%. These students retain and graduate at a higher rate than the total undergraduate population.

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

University of South Carolina students from the state are eligible for tuition assistance based on entrance exams, rank in class and GPA. The state funding commitment for merit scholarships remains strong with funding from the South Carolina Education Lottery. Students at the USC campuses annually receive more than \$80 million across the different scholarship programs. Additionally funding from lottery proceeds supports technology needs at the system comprehensive and Palmetto College campuses.

Following completion of the largest capital campaign in University history with \$1,043,265,730 collected exceeding the ambitious \$1 billion goal, fundraising moderated for the 2016 fiscal year with \$103.6 million in collections. This is the ninth consecutive year the University has raised more than \$100 million in private support. Research grant awards were \$250 million in the 2016 fiscal year, an \$11.8 million increase over the prior year. USC hospital partners with Greenville Hospital Systems, Palmetto Health Systems, and the Veterans Administration led the increases in external funding. Economic engagement efforts led to the April 2016 grand opening of the Center for Applied Innovation, where university, IBM and private sector researchers – including Fluor Corporation – will use technology for real world applications. Initial projects include developing ways to enhance and personalize tools in higher education, make aircraft more reliable and supply chains more efficient.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Net Position
As of June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 400,663,538
Restricted - cash and cash equivalents	174,897,355
Accounts receivable, net	65,398,585
Student loans receivable, current	7,403
Inventories	1,518,314
Prepaid items	2,322,016
Funds due from others	7,360,724
	<hr/>
Total current assets	652,167,935

Noncurrent assets:

Restricted - cash and cash equivalents	86,940,445
Investments	5,179,315
Prepaid items	2,000,000
Restricted - federal student loans receivable	15,292,509
Capital assets, net of accumulated depreciation	1,178,481,599
Other assets	2,841,486
	<hr/>
Total noncurrent assets	1,290,735,354

Total assets

1,942,903,289

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	4,076,021
Deferred outflows related to net pension liability	54,126,360
	<hr/>
Total deferred outflows of resources	58,202,381

LIABILITIES

Current liabilities:

Accounts payable	21,221,422
Retainage payable - current portion	2,927,325
Accrued interest payable	4,218,474
Accrued payroll and related liabilities	17,644,789
Accrued compensated absences - current portion	19,574,158
Capital lease obligations - current portion	4,659,197
Bonds and notes payable - current portion	21,325,748
Unearned revenues	52,279,096
Deposits	2,343,364
Other liabilities	584,668
Funds held for others	5,730,592
	<hr/>
Total current liabilities	152,508,833

Noncurrent liabilities:

Accrued compensated absences	11,997,064
Federal loan liability	15,426,884
Capital lease obligations	9,910,679
Bonds and notes payable	512,019,923
Net pension liability	662,457,154
	<hr/>
Total noncurrent liabilities	1,211,811,704

Total liabilities

1,364,320,537

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net pension liability	2,095,233
	<hr/>

NET POSITION

Net investment in capital assets	665,670,430
Restricted for:	
Nonexpendable	82,270,152
Expendable	
Scholarships, research, instruction, and other	36,374,061
Loans	2,558,414
Capital projects	79,634,163
Debt service	7,908,562
Unrestricted	(239,725,882)
	<hr/>

Total net position

\$ 634,689,900

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2016

OPERATING REVENUES

Student tuition and fees (\$29,253,723 pledged for bonds)	\$ 647,974,770
Less: scholarship allowance	(230,142,907)
Federal grants and contracts	132,706,381
State grants and contracts	73,379,395
Local grants and contracts	854,453
Nongovernmental grants and contracts	32,517,818
Sales and services of educational and other activities	26,354,098
Sales and services of auxiliary enterprises (\$20,940,997 pledged for bonds)	150,915,213
Less: scholarship allowance	(2,976,638)
Interest collected on student loans	275,195
Other fees (\$3,515,850 pledged for bonds)	9,151,359
Other operating revenues	<u>5,057,808</u>
Total operating revenues	<u>846,066,945</u>

OPERATING EXPENSES

Salaries and wages	506,042,733
Fringe benefits	165,646,390
Services and supplies	244,309,833
Utilities	29,322,198
Scholarships and fellowships	18,696,420
Depreciation expense	<u>52,921,422</u>
Total operating expenses	<u>1,016,938,996</u>
Operating loss	<u>(170,872,051)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	127,288,305
Federal grants	30,748,484
Gifts	39,220,132
Investment income	3,460,573
Endowment income	6,852,437
Loss on disposal of capital assets	(123,236)
Interest on capital asset related debt	<u>(20,316,637)</u>
Net nonoperating revenues	<u>187,130,058</u>
Income before other revenues	16,258,007

State capital appropriations	22,457,877
Capital grants and gifts	3,254,140
Additions to permanent endowments	361,492
Transfers (to)/from other campuses, net	<u>(1,491,487)</u>
Change in net position	40,840,029

NET POSITION, BEGINNING OF YEAR

593,849,871

NET POSITION, END OF YEAR

\$ 634,689,900

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2016

OPERATING ACTIVITIES

Student tuition and fees	\$ 414,762,362
Research grants and contracts	230,443,290
Sales and services of educational and other activities	26,319,006
Sales and services of auxiliary enterprises	147,950,491
Student loans disbursed	(1,832,070)
Student loans collected	2,673,365
Interest collected on student loans	275,195
Inflows from federal direct student loans	237,246,360
Outflows from federal direct student loans	(240,479,807)
Payments to employees for services	(504,869,629)
Payments to employees for benefits	(153,655,857)
Payments to suppliers	(262,628,941)
Payments to students for scholarships and fellowships	(18,696,419)
Other receipts	12,628,726
Inflows from agency funds	57,236,023
Outflows from agency funds	(53,081,775)
Net cash used by operating activities	<u>(105,709,680)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	127,288,305
Federal grants	30,748,484
Gifts	41,964,918
Additions to permanent endowments	986,455
Transfers (to)/from other campuses, net	(1,491,487)
Federal loan liability	<u>(271,373)</u>
Net cash provided by noncapital financing activities	<u>199,225,302</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	46,138,463
State capital appropriations	22,536,760
Capital grants and gifts	1,960,210
Purchase and construction of capital assets	(95,520,871)
Principal paid on capital asset related debt	(58,698,581)
Interest paid on capital asset related debt	<u>(24,126,867)</u>
Net cash used by capital and related financing activities	<u>(107,710,886)</u>

INVESTING ACTIVITIES

Investment income	3,774,020
Endowment income	<u>6,453,877</u>
Net cash provided by investing activities	<u>10,227,897</u>
Net increase/(decrease) in cash and cash equivalents	<u>(3,967,367)</u>

Cash and cash equivalents, beginning of year	<u>666,468,705</u>
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Cash and cash equivalents, end of year	<u>\$ 662,501,338</u>
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Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 400,663,538
Restricted - cash and cash equivalents, current	174,897,355
Restricted - cash and cash equivalents, noncurrent	<u>86,940,445</u>
	<u>\$ 662,501,338</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2016

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

Operating loss	\$ (170,872,051)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	52,921,422
Accrued benefits related to net pension liability	10,313,378
Student loans cancelled	201,437
Change in current assets and liabilities	
Accounts receivable, net	(22,116,842)
Student loans receivable	838,886
Inventories	269,878
Prepaid items	2,854,497
Accounts payable	7,677,173
Retainage payable - noncapital	104
Accrued payroll	381,054
Accrued benefits	1,677,155
Accrued compensated absences	836,515
Unearned revenues	8,157,508
Deposits	189,224
Other liabilities	39,222
Funds held for and due from others	921,760
Net cash used by operating activities	<u>\$ (105,709,680)</u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u>\$ 1,694,770</u>
Net change in capital grants and gifts receivables and unearned revenues	<u>\$ 400,840</u>
Loss on disposal of capital assets, net	<u>\$ (123,236)</u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u>\$ 48,431</u>
Change in value of investments recognized in endowment and investment income	<u>\$ 350,128</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Governmental Discretely Presented Component Units
Statements of Net Position
June 30, 2016

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 239,007	\$ 20,335,110	\$ 20,574,117
Restricted cash and cash equivalents	90,301,520	354,194	90,655,714
Investments	-	9,866,995	9,866,995
Patient and other accounts receivable, net	9,810,634	13,311,916	23,122,550
Prepaid items and deposits	52,716	-	52,716
Total current assets	<u>100,403,877</u>	<u>43,868,215</u>	<u>144,272,092</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>134,275</u>	<u>10,596,148</u>	<u>10,730,423</u>
Total noncurrent assets	<u>134,275</u>	<u>10,596,148</u>	<u>10,730,423</u>
Total assets	<u>100,538,152</u>	<u>54,464,363</u>	<u>155,002,515</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	90,416,332	7,127,159	97,543,491
Accrued compensated balances	-	1,198,615	1,198,615
Unearned revenue	9,532,473	-	9,532,473
Current portion of long term debt	-	4,464,975	4,464,975
Total current liabilities	<u>99,948,805</u>	<u>12,790,749</u>	<u>112,739,554</u>
Noncurrent liabilities			
Noncurrent portion of long term debt	-	374,938	374,938
Total noncurrent liabilities	<u>-</u>	<u>374,938</u>	<u>374,938</u>
Total liabilities	<u>99,948,805</u>	<u>13,165,687</u>	<u>113,114,492</u>
NET POSITION			
Net investment in capital assets	-	7,262,317	7,262,317
Unrestricted	<u>589,347</u>	<u>34,036,359</u>	<u>34,625,706</u>
Total net position	<u>\$ 589,347</u>	<u>\$ 41,298,676</u>	<u>\$ 41,888,023</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Governmental Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2016

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
REVENUES			
Operating revenues			
Contracts and grants	\$ 160,081,578	\$ 33,627,244	\$ 193,708,822
Patient charges, net of allowances	-	35,731,049	35,731,049
Management fees and recoveries	3,731,976	-	3,731,976
Royalty income	184,454	-	184,454
Realized investment income, net	-	507,623	507,623
Other operating revenues	-	3,743,476	3,743,476
Total operating revenues	<u>163,998,008</u>	<u>73,609,392</u>	<u>237,607,400</u>
EXPENSES			
Operating expenses			
Salaries and administrative expenses	994,907	51,150,512	52,145,419
Services and supplies	1,145,381	22,313,663	23,459,044
Research and development direct costs	161,987,593	-	161,987,593
Depreciation and amortization	-	1,129,618	1,129,618
Total operating expenses	<u>164,127,881</u>	<u>74,593,793</u>	<u>238,721,674</u>
Operating income (loss)	(129,873)	(984,401)	(1,114,274)
NONOPERATING REVENUES (EXPENSES)			
Private gifts and donations	(72,526)	-	(72,526)
Interest and investment income	3,288	-	3,288
Unrealized gain (loss) on investment holdings, net	-	(495,436)	(495,436)
Net nonoperating revenues (expenses)	<u>(69,238)</u>	<u>(495,436)</u>	<u>(564,674)</u>
Change in net position	(199,111)	(1,479,837)	(1,678,948)
NET POSITION, BEGINNING OF YEAR	<u>788,458</u>	<u>42,778,513</u>	<u>43,566,971</u>
NET POSITION, END OF YEAR	<u><u>\$ 589,347</u></u>	<u><u>\$ 41,298,676</u></u>	<u><u>\$ 41,888,023</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Financial Position
June 30, 2016

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS						
Cash and cash equivalents	\$ 7,677,045	\$ 8,706,255	\$ 1,709,794	\$ 2,838,568	\$ 116,244	\$ 21,047,906
Investments	32,061,488	340,103,185	52,555,030	6,177,201	7,826,455	438,723,359
Real estate held for investment	30,235,507	1,701,527	-	-	-	31,937,034
Assets held in trust	-	63,756,195	50,134,698	-	-	113,890,893
Accounts receivable, net	1,287,945	10,000,280	803,186	2,320,224	-	14,411,635
Contributions receivable, net	1,795,324	44,824,519	2,530,748	-	154,716	49,305,307
Prepaid expenses	29,583	-	14,950	229,444	-	273,977
Other assets	898,699	251	51,645	41,355	-	991,950
Fixed assets, net of depreciation	134,128,065	-	-	22,496,471	7,948,953	164,573,489
Total assets	\$ 208,113,656	\$ 469,092,212	\$ 107,800,051	\$ 34,103,263	\$ 16,046,368	\$ 835,155,550
LIABILITIES						
Accounts payable and accrued expenses	\$ 5,937,698	\$ 5,302,480	\$ 473,266	\$ 98,393	\$ 4,994	\$ 11,816,831
Lines of credit	41,444,182	-	-	-	-	41,444,182
Deferred revenues	1,076,995	-	15,225,274	327,080	-	16,629,349
Bonds and notes payable	117,444,972	24,874,983	-	20,933,004	4,039,611	167,292,570
Interest rate swap	9,750,627	-	-	-	-	9,750,627
Other liabilities	1,202,373	7,876,456	77,795	91,573	-	9,248,197
Total liabilities	176,856,847	38,053,919	15,776,335	21,450,050	4,044,605	256,181,756
NET ASSETS						
Unrestricted	3,212,861	64,618,244	14,374,206	7,935,481	4,835,679	94,976,471
Temporarily restricted	24,990,244	141,213,469	49,203,065	4,717,732	1,756,017	221,880,527
Permanently restricted	3,365,928	225,206,580	28,446,445	-	5,410,067	262,429,020
Total Foundation net assets	31,569,033	431,038,293	92,023,716	12,653,213	12,001,763	579,286,018
Noncontrolling interest	(312,224)	-	-	-	-	(312,224)
Total net assets	31,256,809	431,038,293	92,023,716	12,653,213	12,001,763	578,973,794
Total liabilities and net assets	\$ 208,113,656	\$ 469,092,212	\$ 107,800,051	\$ 34,103,263	\$ 16,046,368	\$ 835,155,550

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2016

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS						
Revenues, gains and other support						
Contributions	\$ 3,402	\$ 23,405,047	\$ 956,859	\$ 1,869,208	\$ 451,337	\$ 26,685,853
Investment returns (losses)	(1,061,176)	4,074,786	126,495	116,458	(25,923)	3,230,640
Net realized and unrealized gains (losses)	-	(7,804,071)	-	(249,424)	-	(8,053,495)
Earned income	10,708,502	-	2,156,881	214,157	-	13,079,540
Other	1,018,427	1,358,082	-	2,398,936	202,609	4,978,054
Net assets released from restrictions:						
Transfers	-	-	1,877,178	-	109,512	1,986,690
Reclassification based on law change	-	-	(62,251)	-	-	(62,251)
Satisfaction of program restrictions	1,429,059	5,911,581	16,940,393	2,818,378	61,770	27,161,181
Expiration of time restrictions	-	2,665,981	-	-	-	2,665,981
Total revenues, gains and other support	<u>12,098,214</u>	<u>29,611,406</u>	<u>21,995,555</u>	<u>7,167,713</u>	<u>799,305</u>	<u>71,672,193</u>
Expenses						
Scholarships and student assistance	-	10,321,727	1,263,542	305,250	179,889	12,070,408
Program services	8,662,430	17,387,178	20,009,687	2,811,700	1,408,051	50,279,046
Supporting services	4,552,226	4,476,401	327,097	1,505,839	127,150	10,988,713
Other expenses	-	-	-	2,762,857	-	2,762,857
Total expenses	<u>13,214,656</u>	<u>32,185,306</u>	<u>21,600,326</u>	<u>7,385,646</u>	<u>1,715,090</u>	<u>76,101,024</u>
Excess revenues over (under) expenses	(1,116,442)	(2,573,900)	395,229	(217,933)	(915,785)	(4,428,831)
Interest rate swap fair value adjustment	<u>(4,773,490)</u>	-	-	-	-	<u>(4,773,490)</u>
Change in unrestricted net assets	<u>\$ (5,889,932)</u>	<u>\$ (2,573,900)</u>	<u>\$ 395,229</u>	<u>\$ (217,933)</u>	<u>\$ (915,785)</u>	<u>\$ (9,202,321)</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2016

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Contributions	\$ 1,451,181	\$ 3,677,814	\$ 45,978,186	\$ 2,293,165	\$ (129,572)	\$ 53,270,774
Investment returns (losses)	-	1,753,774	(1,457,303)	-	(207,349)	89,122
Net realized and unrealized gains (losses)	138,910	(3,882,927)	-	-	-	(3,744,017)
Other	1,200	-	-	225,637	-	226,837
Net assets released from restrictions:						
Transfers	-	-	(2,021,119)	-	(220,364)	(2,241,483)
Reclassification based on law change	-	-	62,251	-	-	62,251
Satisfaction of program restrictions	(1,429,059)	(8,825,341)	(16,940,393)	(2,818,378)	(61,770)	(30,074,941)
Expiration of time restrictions	-	(3,479,665)	-	-	-	(3,479,665)
Change in temporarily restricted net assets	162,232	(10,756,345)	25,621,622	(299,576)	(619,055)	14,108,878
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	8,106,644	521,631	-	124,497	8,752,772
Net assets released from restrictions:						
Transfers	-	-	143,941	-	110,852	254,793
Satisfaction of program restrictions	-	2,913,760	-	-	-	2,913,760
Expiration of time restrictions	-	813,684	-	-	-	813,684
Change in permanently restricted net assets	-	11,834,088	665,572	-	235,349	12,735,009
Change in net assets	(5,727,700)	(1,496,157)	26,682,423	(517,509)	(1,299,491)	17,641,566
Net change attributable to noncontrolling interest	(89,726)	-	-	-	-	(89,726)
NET ASSETS, BEGINNING OF YEAR	37,386,459	432,534,450	65,341,293	13,170,722	13,301,254	561,734,178
NET ASSETS, END OF YEAR	\$ 31,569,033	\$ 431,038,293	\$ 92,023,716	\$ 12,653,213	\$ 12,001,763	\$ 579,286,018

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure* provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Campuses as the primary government and other related entities as discretely presented component units. The Campuses' discretely presented component units are discussed in Note 11.

The Campuses are part of the University of South Carolina (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 Campuses meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campuses' net position, revenues, expenses and changes in net position and cash flows.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

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

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Campuses consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Campuses participate in the State's internal cash management pool, administered by the State Treasurer. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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 Campuses report deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campuses' special deposit accounts is posted at the end of each month based on the percentage of the Campuses' accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

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

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

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

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 55 years for buildings and improvements and land improvements; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month of disposition.

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2016 was \$3,158,481.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. The majority of unearned revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. 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 University's 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. 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 University's deferred inflows of resources consist of increases in the net pension liability that were not included in pension expense are reported as deferred inflows of resources.

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Income Taxes - The University is a political subdivision of the State and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campuses may be subject to taxation as unrelated business income.

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

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

These revenues include:

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

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

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

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

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

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campuses had no rebatable arbitrage liability at June 30, 2016.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

At June 30, 2016, \$13,136,495 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

Adoption of new accounting standard - Effective for the fiscal year ending June 30, 2016, the Campuses adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of this implementation, the Campuses classify its investments using a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The effect of this implementation is discussed in Note 2.

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

Most deposits and investments of the Campuses are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors.

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

Statement of Net Position	
Cash and cash equivalents (current)	\$ 400,663,538
Restricted cash and cash equivalents (current) for:	
Debt service	4,917,003
Scholarship, research, instruction, and other	39,312,025
University administered loans	193,854
Capital projects	130,474,473
	<u>174,897,355</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	76,773,655
Federal student loans	2,498,409
Debt service reserves	7,668,381
	<u>86,940,445</u>
Investments (noncurrent)	<u>5,179,315</u>
Total	<u>\$ 667,680,653</u>
 Notes	
Cash on hand	1,012,669
Deposits held by State Treasurer	661,135,976
Other deposits	352,693
Investments held by State Treasurer	3,531,322
Other investments	1,647,993
Total	<u>\$ 667,680,653</u>

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

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

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

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2016, \$10,202,444 of the \$661,135,976 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

The University has adopted applicable accounting standards for its financial assets and liabilities which clarify that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University utilizes market data or assumptions that market participants would use in pricing the asset or liability. The standards establish a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The University's investments consist of \$1,136,215 Level 1 assets, \$163,145 Level 2 assets, and \$348,633 Level 3 assets. The investment assets held in the State's cash management pool are all Level 2 assets.

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

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

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

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

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

Other investments totaling \$1,647,993 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name.

The net change in unrealized appreciation of investments for the current fiscal year was \$350,128.

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

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	\$	11,540,018
Auxiliary enterprises		5,373,186
Federal grants and contracts		42,063,166
State grants and contracts		2,063,963
Local grants and contracts		372,728
Non-governmental grants and contracts		5,814,332
Accrued interest		802,115
		<hr/> 68,029,508
Less allowance for doubtful accounts		(2,630,923)
		<hr/>
Accounts receivable, net	\$	<u><u>65,398,585</u></u>

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

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

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

As the Campuses determine that loans are uncollectible, the loans can be assigned to the federal agency administering 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 Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

At June 30, 2016 the University had no capital improvement bond proceeds receivable.

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

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Capital assets not being depreciated				
Land and improvements	\$ 78,157,886	\$ -	\$ -	\$ 78,157,886
Construction in progress	97,111,829	78,860,337	72,153,238	103,818,928
Works of art and historical treasures	31,299,441	3,415,067	-	34,714,508
Total capital assets not being depreciated	<u>206,569,156</u>	<u>82,275,404</u>	<u>72,153,238</u>	<u>216,691,322</u>
Other capital assets				
Land improvements	96,332,822	30,632	-	96,363,454
Buildings and improvements	1,323,617,915	66,145,441	-	1,389,763,356
Machinery, equipment and other	177,727,300	10,755,012	4,526,935	183,955,377
Vehicles	15,665,100	834,131	280,290	16,218,941
Intangibles	56,665,956	5,670,197	-	62,336,153
Total capital assets at historical cost	<u>1,670,009,093</u>	<u>83,435,413</u>	<u>4,807,225</u>	<u>1,748,637,281</u>
Less accumulated depreciation for				
Land improvements	26,753,654	3,764,430	-	30,518,084
Buildings and improvements	550,831,389	33,511,517	-	584,342,906
Machinery, equipment and other	137,731,730	8,741,968	4,403,699	142,069,999
Vehicles	10,272,116	948,920	280,290	10,940,746
Intangibles	13,020,682	5,954,587	-	18,975,269
Total accumulated depreciation	<u>738,609,571</u>	<u>52,921,422</u>	<u>4,683,989</u>	<u>786,847,004</u>
Other capital assets, net	<u>931,399,522</u>	<u>30,513,991</u>	<u>123,236</u>	<u>961,790,277</u>
Capital assets, net	<u>\$ 1,137,968,678</u>	<u>\$ 112,789,395</u>	<u>\$ 72,276,474</u>	<u>\$ 1,178,481,599</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publically available through the Retirement Benefits' link on PEBA's website at www.peba.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. 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 comprehensive 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 SCRS to certain newly hired state, public school, and higher education employees. State 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 the University, 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
COLUMBIA AND REGIONALS
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 S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State 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 (8.16 percent) and a portion of the employer contribution (5.00 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.91 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.

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.

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

NOTE 5 - PENSION PLANS, Continued

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.

Contributions - Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total 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.

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

NOTE 5 - PENSION PLANS, Continued

Required **employee** contribution rates for fiscal year 2015-2016 are as follows:

SCRS

Employee Class II	8.16% of earnable compensation
Employee Class III	8.16% of earnable compensation

ORP

8.16% of earnable compensation

PORS

Employee Class II	8.74% of earnable compensation
Employee Class III	8.74% of earnable compensation

Required **employer** contribution rates¹ for fiscal year 2015-2016 are as follows:

SCRS

Employer Class II	10.91% of earnable compensation
Employer Class III	10.91% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

ORP

Employer Contribution ²	10.91% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class II	13.34% of earnable compensation
Employer Class III	13.34% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

² Of this employer contribution, 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 the SCRS.

Of the ORP employer contribution of 10.91% 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.

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

NOTE 5 - PENSION PLANS, Continued

SCRS - The Campuses' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2016, 2015, and 2014 were:

Fiscal Year <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2016	10.910%	\$25,056,000	0.150%	\$344,000
2015	10.750%	\$24,408,000	0.150%	\$341,000
2014	10.450%	\$22,313,000	0.150%	\$320,000

PORS - The Campuses' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2016, 2015, and 2014 were:

Fiscal Year <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>		<u>Accidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2016	13.340%	\$672,000	0.200%	\$10,100	0.200%	\$10,100
2015	13.010%	\$665,000	0.200%	\$10,000	0.200%	\$10,000
2014	12.440%	\$617,000	0.200%	\$10,000	0.200%	\$10,000

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, 2016, the Campuses reported liabilities of \$653,583,503 and \$8,873,651 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The Campuses' proportionate shares of the net pension liabilities were based on the Campuses' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Campuses' proportionate shares of the SCRS and PORS plans were 3.44617% and 0.40714%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2013, respectively.

Pension Expense - For the year ended June 30, 2016, the Campuses recognized pension expense of \$47,398,172 and \$777,715 for SCRS and PORS, respectively.

**UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements**

NOTE 5 - PENSION PLANS, Continued

Deferred inflows of resources and deferred outflows of resources – At June 30, 2016, the University 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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,586,280	\$ 1,176,414
Net difference between projected and actual earnings on pension plan investments	4,403,204	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	863,008
University contributions subsequent to the measurement date	37,176,186	-
Total	<u>\$ 53,165,670</u>	<u>\$ 2,039,422</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 176,778	\$ -
Net difference between projected and actual earnings on pension plan investments	97,590	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	55,811
University contributions subsequent to the measurement date	686,322	-
Total	<u>\$ 960,690</u>	<u>\$ 55,811</u>

The \$37,176,186 and \$686,322 reported as deferred outflows of resources related to pensions resulting from the Campuses' contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2016 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2017.

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

NOTE 5 - PENSION PLANS, 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:	
2017	(2,374,215)
2018	(2,374,215)
2019	1,658,002
2020	(10,859,634)
	<u>\$ (13,950,062)</u>

	PORS
Year ended June 30:	
2017	(12,185)
2018	(12,185)
2019	(4,622)
2020	(189,565)
	<u>\$ (218,557)</u>

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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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, performed on data through June 30, 2015, is currently underway.

**UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements**

NOTE 5 - PENSION PLANS, Continued

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014 valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.5%	7.5%
Projected salary increases	3.5% to 12.5% (varies by service) ¹	4.0% to 10.0% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

¹ Includes inflation at 2.75%

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. Assumptions used in the July 1, 2014 valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	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 and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

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

NOTE 5 - PENSION PLANS, Continued

Net Pension Liability - 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, 2015, 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	\$44,097,310,230	\$25,131,828,101	\$18,965,482,129	57.0%
PORS	6,151,321,222	3,971,824,838	2,179,496,384	64.6%

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. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

The most significant impact on a plan's fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investment substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL. Investments earned 1.60% during the plan year ended June 30, 2015 and thus the market value of the SCRS and PORS investments increased slightly. However, this resulted in negative cash flows because net investment income plus other plan additions (contributions) were not substantial enough to offset plan deductions (benefit payments and administrative costs). Accordingly, SCRS and PORS experienced an overall decreased in plan fiduciary net position for the fiscal year ended June 30, 2015. This change, coupled with the annual increase in the total pension liability, led to a \$1.75 billion and \$265 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2015.

Long Term Expected Rate of Return - The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and 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.

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

NOTE 5 - PENSION PLANS, Continued

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Short Term			
Cash	2.0%	1.9%	0.04%
Short Duration	3.0%	2.0%	0.06%
Domestic Fixed Income			
Core Fixed Income	7.0%	2.7%	0.19%
Mixed Credit	6.0%	3.8%	0.23%
Global Fixed Income			
Global Fixed Income	3.0%	2.8%	0.08%
Emerging Markets Debt	6.0%	5.1%	0.31%
Global Public Equity	31.0%	7.1%	2.20%
Global Tactical Asset Allocation	10.0%	4.9%	0.49%
Alternatives			
Hedge Funds (Low Beta)	8.0%	4.3%	0.34%
Private Debt	7.0%	9.9%	0.69%
Private Equity	9.0%	9.9%	0.89%
Real Estate (Broad Market)	5.0%	6.0%	0.30%
Commodities	3.0%	5.9%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. 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.

Sensitivity Analysis - The following table presents the collective net pension liability of the Campuses calculated using the discount rate of 7.50 percent, as well as what the Campuses' 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	\$823,981,098	\$653,583,503	\$510,767,281
PORS	12,087,917	8,873,651	6,000,178

Additional Financial and Actuarial Information - Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2015 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2015.

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

NOTE 5 - PENSION PLANS, Continued

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.

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campuses contribute to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.33% of annual covered payroll for 2016 and 5.00% of annual covered payroll for 2015. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$23,420,000 and \$21,473,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015. The Campuses recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$221,000 and \$215,000 for the years ended June 30, 2016 and 2015, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

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

**UNIVERSITY OF SOUTH CAROLINA
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NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

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

The University had outstanding commitments under construction contracts of \$44,782,901 for capital and \$5,697,828 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

NOTE 8 - LEASE OBLIGATIONS

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

Real Property Operating Leases

2017	\$ 1,628,072
2018	955,915
2019	785,754
2020	435,715
2021	154,984
2022-2026	474,400
2027-2031	47,440
Total minimum lease payments	<u><u>\$ 4,482,280</u></u>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2017-2031. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$3,484,417 for fiscal year 2016. Of this amount, \$400,962 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$933,280 for office copier contingent rentals on a cost per copy basis.

The Campuses have a 35 year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the entire term. As of June 30, 2016, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,100,000 with \$100,000 reflected as a current asset.

Capital Leases - held by the Campuses as of June 30, 2016:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$ 18,038,502	\$ 3,592,493	\$ 14,446,009
Equipment	548,000	148,417	399,583

**UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements**

NOTE 8 - LEASE OBLIGATIONS, Continued

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

2017	\$ 5,378,827
2018	1,100,233
2019	1,093,820
2020	967,776
2021	960,190
2022-2026	4,940,034
2027-2031	4,667,441
	<hr/>
Total minimum lease payments	19,108,321
Less amount representing interest	(4,538,445)
	<hr/>
Present value of minimum lease payments by year	<u><u>\$ 14,569,876</u></u>

Capital lease obligations consist of:

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 and a payment of approximately \$4,000,000 due in March 2017. Interest rates range from 5.085% to 6.815%. This agreement expires in March 2031.

14,249,142

Agreement with Hewlett Packard payable in monthly principal payments of \$9,859 with a fixed interest rate of 3.05%. This agreement expires in April 2019.

320,734

Present value of minimum lease payments by lease

\$ 14,569,876

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2016 Balance	Debt Retired in Fiscal Year 2016
State Institution Bonds					
Series 2006B	\$ 40,250,000	5.25%	04/01/16	\$ -	\$ 1,865,000
Series 2011A Refunding	18,525,000	2.25% to 5%	03/01/22	11,795,000	1,735,000
Series 2011E	20,420,000	2.25% to 5%	03/01/31	16,680,000	785,000
Series 2012A Refunding	20,156,000	2.5% to 5%	04/01/24	9,535,000	3,191,000
Series 2014A	11,740,000	3% to 5%	04/01/34	10,900,000	385,000
Series 2015A	56,725,000	2% to 5%	04/01/35	54,585,000	2,140,000
Series 2015B Refunding	21,250,000	4% to 5%	04/01/26	21,250,000	-
Total State Institution Bonds				124,745,000	10,101,000
Revenue Bonds					
Series 2005A	12,400,000	5%	05/01/35	-	9,820,000
Series 2005A Refunding	40,310,000	5%	06/01/30	-	28,765,000
Series 2008A	48,225,000	4% to 5.25%	06/01/38	41,730,000	1,045,000
Series 2008A Athletic	27,395,000	4% to 5.5%	05/01/38	25,425,000	655,000
Series 2010A	28,510,000	3.125% to 5%	06/01/40	25,215,000	595,000
Series 2010A Athletic	65,855,000	4% to 5%	05/01/40	59,190,000	1,300,000
Series 2010B Refunding Athletic	12,840,000	3% to 5%	05/01/27	10,160,000	640,000
Series 2012	61,945,000	3% to 5%	05/01/35	60,000,000	1,945,000
Series 2012 Refunding	26,025,000	3% to 5%	05/01/34	23,200,000	975,000
Series 2012A Athletic	13,580,000	2.5% to 4%	05/01/42	12,465,000	295,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	26,295,000	3% to 5%	05/01/43	25,365,000	470,000
Series 2015A Athletic	38,270,000	3% to 5%	05/01/45	37,680,000	590,000
Series 2015	40,260,000	3.5% to 5%	05/01/35	39,475,000	785,000
Total Revenue Bonds				366,255,000	47,880,000
Subtotal bonds payable				491,000,000	57,981,000
Plus unamortized bond premiums				42,552,071	2,467,996
Less unamortized bond discounts				(206,400)	(12,900)
Total Bonds Payable				\$ 533,345,671	\$ 60,436,096

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 2016 was \$27,489,044 for state institution bonds.

**UNIVERSITY OF SOUTH CAROLINA
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NOTE 9 - BONDS AND NOTES PAYABLE, Continued

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2016 were \$15,792,219 from sales and services of auxiliary enterprises.

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2016 consisted of \$1,764,679 in special student fees, \$3,515,850 in special admission fees and \$5,148,778 in athletic department revenues included in sales and services of auxiliary enterprises.

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

On September 1, 2015 the Campuses issued \$6,245,000 in Revenue bonds for building renovations.

On September 1, 2015 the Campuses issued \$34,015,000 in Revenue Refunding bonds to fully refund the Series 2005A Revenue Refunding bonds with a final maturity of June 1, 2030 to be called December 1, 2015 and to fully refund the Series 2005A Revenue bonds with a final maturity of May 1, 2035 to be called on September 25, 2035. The refunding transaction resulted in a deferred loss on refunding of \$236,250, an aggregate debt payment reduction of \$4,413,850 over the next 20 years and an economic gain of \$3,671,524.

Subsequent to June 30, 2016, two bond issuances took place that resulted in significant savings to the University. On July 1, 2016, the Campuses issued \$35,300,000 in Higher Education Revenue Refunding bonds and \$22,400,000 in Athletic Revenue Refunding bonds. This transaction resulted in a present value savings of \$13,000,000 that will be realized in the form of annual cash flow savings ranging from \$567,000 to \$740,000 per year through 2039.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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NOTE 9 - BONDS AND NOTES PAYABLE, Continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2017	\$ 7,697,000	\$ 5,411,091	\$ 13,108,091
2018	8,036,000	5,077,491	13,113,491
2019	8,361,000	4,728,841	13,089,841
2020	8,776,000	4,310,791	13,086,791
2021	9,095,000	3,967,541	13,062,541
2022-2026	38,710,000	13,547,726	52,257,726
2027-2031	26,615,000	5,983,938	32,598,938
2032-2035	17,455,000	1,432,988	18,887,988
Total	\$ 124,745,000	\$ 44,460,407	\$ 169,205,407
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds			
2017	\$ 10,965,000	\$ 17,368,300	\$ 28,333,300
2018	11,985,000	16,921,750	28,906,750
2019	12,155,000	16,418,200	28,573,200
2020	12,730,000	15,853,650	28,583,650
2021	13,340,000	15,234,144	28,574,144
2022-2026	74,890,000	66,063,494	140,953,494
2027-2031	85,415,000	47,017,025	132,432,025
2032-2036	82,935,000	26,049,025	108,984,025
2037-2041	49,765,000	8,270,463	58,035,463
2042-2045	12,075,000	1,046,200	13,121,200
Total	\$ 366,255,000	\$ 230,242,251	\$ 596,497,251

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 134,846,000	\$ -	\$ 10,101,000	\$ 124,745,000	\$ 7,697,000	\$ 117,048,000
Revenue Bonds	373,875,000	40,260,000	47,880,000	366,255,000	10,965,000	355,290,000
Subtotal Bonds Payable	508,721,000	40,260,000	57,981,000	491,000,000	18,662,000	472,338,000
Unamortized Bond Premiums	39,141,604	5,878,463	2,467,996	42,552,071	2,676,648	39,875,423
Unamortized Bond Discounts	(219,300)	-	(12,900)	(206,400)	(12,900)	(193,500)
Total Bonds Payable	547,643,304	46,138,463	60,436,096	533,345,671	21,325,748	512,019,923
Notes Payable	30,825	-	30,825	-	-	-
Total Bonds and Notes Payable	\$ 547,674,129	\$ 46,138,463	\$ 60,466,921	\$ 533,345,671	\$ 21,325,748	\$ 512,019,923
Capital Lease Obligations	\$ 15,256,632	\$ -	\$ 686,756	\$ 14,569,876	\$ 4,659,197	\$ 9,910,679
Accrued Compensated Absences	\$ 30,734,707	\$ 22,421,672	\$ 21,585,157	\$ 31,571,222	\$ 19,574,158	\$ 11,997,064

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

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

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust (the Trust), both of which are considered governmental component units. In addition, the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as governmental or non-governmental reporting entities.

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

Governmental Discretely Presented Component Units

The South Carolina Research Foundation (the Foundation) operates as a supporting organization of the University of South Carolina's teaching, research, and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. The Foundation receives research funding from private sources and also competes for federal funds. The University receives funds for research from the Foundation. In 2013, University and Research Foundation management agreed to administrative process changes that allowed the Campuses to resume its historic role of directly processing new federal grant and contract transactions. The Campuses expect that over the next several years this decision will result in the University processing all federal grant and contract transactions and an equal reduction in the federal grant activities processed by the Research Foundation. Complete financial statements for the Foundation can be obtained at The South Carolina Research Foundation, 202 Osborne Building, USC, Columbia, SC 29208, Attention: Kelly Epting.

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

NOTE 11 - COMPONENT UNITS, Continued

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine. The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

The Trust is involved in continuing discussions regarding the integration of patient operations with its primary affiliated hospital/healthcare partner. During fiscal year 2015, a new 501(c)(3) entity was formed. The two members are Palmetto Health and the Trust. The new entity's name is Palmetto Health University of South Carolina Medical Group ("PHUSCMG"). The new entity is still in the process of becoming operational. Formal Management Service Agreements and other operating agreements and documents are expected to be finalized during fiscal year 2017. Board members of PHUSCMG have been appointed and an Executive Dean has been hired and is actively working towards the operational start date. Board members of PHUSCMG have been appointed and an Executive Dean has been hired and is actively working towards the operational start date. PHUSCMG will provide healthcare services to substantially the same patient and demographic populations as before. Complete financial statements for the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202, Attention: Jeff Perkins.

Non-Governmental Discretely Presented Component Units

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

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fundraising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation (the Foundation) was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The Campuses receive funds for scholarships, reimbursement of personnel services, fringe benefits and other administrative costs from the Foundation. Complete financial statements for the Foundation can be obtained at University of South Carolina Business Partnership Foundation 1014 Green Street, Columbia, SC 29208, Attention: Rodney L. Roenfeldt.

The Greater University of South Carolina Alumni Association (the Association) was formed to serve the students after they graduate. The Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the Campuses, helping graduates keep in touch with one another, and providing programs of continuing education. The Campuses receive funds for scholarships from the Association and provide office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at 900 Senate Street, Columbia, SC 29201, Attention: Jack Claypoole.

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

NOTE 11 - COMPONENT UNITS, Continued

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

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

Funds Received from Component Units

South Carolina Research Foundation	\$	21,709,400
USC School of Medicine Educational Trust		1,402,949
USC Development Foundation		18,961
USC Educational Foundation		14,323,900
USC Business Partnership Foundation		1,350,490
Greater USC Alumni Association		794,993
Educational Foundation of USC Lancaster		-
Total	\$	39,600,693

Funds Received from Component Units

South Carolina Research Foundation	\$	43,383
USC School of Medicine Educational Trust		3,168,689
USC Development Foundation		347,369
USC Educational Foundation		1,168,051
USC Business Partnership Foundation		54,396
Greater USC Alumni Association		1,270,942
Educational Foundation of USC Lancaster		650
Total	\$	6,053,480

The majority of the South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other component units are recorded as private gifts revenue. Federal grants and contracts receivables include \$7,873,898 due from the South Carolina Research Foundation at June 30, 2016.

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

NOTE 12 - RELATED PARTIES

There are several separately chartered legal entities which do not meet the criteria established by GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, to be treated as component units of the Campuses. These entities are the local higher education commissions. While they are not financially accountable to the Campuses, these organizations exist primarily to provide financial assistance and other support to the Campuses and educational programs. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2016 include significant transactions between them and the Campuses which are as follows:

Lancaster County Commission for Higher Education - The Lancaster County Commission for Higher Education (the Commission) was created under Act 126 of the 1959 Session of the General Assembly of South Carolina. The Commission is composed of seven members who are appointed by the Governor on the recommendation of a majority of the Lancaster County Legislative Delegation, including the Senator. The Commission's purpose is the encouragement of higher education in Lancaster and adjacent areas and, more specifically, the establishment in Lancaster County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Lancaster County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Lancaster County designated specifically for the University of South Carolina Lancaster (USC Lancaster). During the fiscal year ended June 30, 2016, the Commission received an annual appropriation of \$1,466,286. The Commission disbursed \$900,000 to USC Lancaster for operations and maintenance of the physical plant and \$12,244 to vendors for insurance, professional services, and commencement expenses. There was also an \$160,000 disbursement to the Educational Foundation of USC Lancaster for Founders Hall. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2016, the Commission had a net position of \$793,220.

Western Carolina Higher Education Commission - The Western Carolina Higher Education Commission (the Commission) was created under Act 270 in the 1984 Session of the General Assembly of South Carolina. The Commission is composed of ten members, two of whom are from each of the following counties: Allendale, Bamberg, Barnwell, Colleton, and Hampton. The members are appointed by the Governor upon the recommendation of a majority of the Legislative Delegations from the respective counties. The Commission's purpose is the encouragement of higher education in the respective counties and adjacent areas and, more specifically, the establishment of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Allendale, Bamberg, Barnwell, Colleton, and Hampton counties to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Salkehatchie (USC Salkehatchie) of \$52,587 for the fiscal year ended June 30, 2016. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. At June 30, 2016, the Commission had a net position of \$129,143.

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

NOTE 12 - RELATED PARTIES, Continued

Mid-Carolina Commission for Higher Education, formerly known as Sumter County Commission for Higher Education - The Sumter County Commission for Higher Education was created under Act 50 of the 1965 Session of the General Assembly of South Carolina. In 1996, by an act of the state legislature, the Sumter County Commission for Higher Education was restructured as the Mid-Carolina Commission for Higher Education (the Commission) representing Sumter, Lee, and Clarendon Counties. The nine commission members are appointed by the Governor upon recommendation by the respective county legislative delegations, with one each from Lee and Clarendon Counties, and the remaining seven members from Sumter County. The purpose of the Commission is the encouragement of higher education in Sumter County and adjacent areas and, more specifically, the establishment in Sumter County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The University of South Carolina Sumter (USC Sumter) operates the Sumter Campus under contract with the Commission at a cost of \$1 annually. During the fiscal year ended June 30, 2016, the Commission made payments to USC Sumter totaling \$269,233 for the operation and maintenance of the campus. At June 30, 2016, the Commission had a net position of \$564,886.

Union Laurens Commission for Higher Education - The Union County Commission for Higher Education was created by Act 23 in the 1965 Session of the General Assembly of South Carolina and was repealed by Act 288 of the 1987 Session of the General Assembly of South Carolina which created the Union Laurens Commission for Higher Education (the Commission). The Commission is composed of nine members, with seven being residents of Union County and two being residents of Laurens County. The members are appointed by the Governor upon recommendation by the Union and Laurens County Legislative Delegations. The Commission is responsible for the encouragement of higher education in Union and Laurens Counties and adjacent areas and, more specifically, the establishment in Union and Laurens Counties of facilities to offer standard freshman and sophomore college courses and those other courses considered desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Union and Laurens counties of \$174,968 to accomplish these objectives. During the year ended June 30, 2016, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$117,290 for campus projects and maintenance, rental of facilities, community service and institutional support. The Commission provides its land and buildings to USC Union at no cost. USC Union provides clerical, accounting, and cash management services to the Commission at no charge. At June 30, 2016, the Commission had a net position of \$2,465,304..

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

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campuses' insurance coverage in any of the past three years.

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

NOTE 13 - RISK MANAGEMENT, Continued

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

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

NOTE 14 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 225,351,103	\$ 74,356,966	\$ 32,364,574	\$ 87,342	\$ 976,175	\$ -	\$ 333,136,160
Research	61,829,366	23,867,570	34,063,600	4,012	513,802	-	120,278,350
Public service	33,869,467	10,168,152	17,361,790	31,898	328,318	-	61,759,625
Academic support	40,074,901	12,721,547	22,882,984	23,526	17,361	-	75,720,319
Student services	25,050,580	7,509,874	17,750,372	731,026	130,073	-	51,171,925
Institutional support	42,559,834	13,972,005	13,308,042	192,824	205,795	-	70,238,500
Operation & plant maintenance	22,642,729	8,755,733	48,535,658	20,271,524	112	-	100,205,756
Auxiliary enterprises	54,595,567	13,095,825	57,906,796	7,980,046	1,265,169	-	134,843,403
Scholarships and fellowships	69,186	1,198,718	136,017	-	15,259,615	-	16,663,536
Depreciation	-	-	-	-	-	52,921,422	52,921,422
Total operating expenses	\$ 506,042,733	\$ 165,646,390	\$ 244,309,833	\$ 29,322,198	\$ 18,696,420	\$ 52,921,422	\$ 1,016,938,996

NOTE 15 – ENDOWMENTS AND SIMILAR FUNDS

The Campuses' endowment funds and type consist of the following:

Net Position Classification	True Endowment	Quasi Endowment	Total
Restricted - nonexpendable	\$ 82,270,152	\$ -	\$ 82,270,152
Restricted - expendable			
Scholarships, research, instruction and other	-	1,818,049	1,818,049
Unrestricted	-	69,660,495	69,660,495
Total	\$ 82,270,152	\$ 71,478,544	\$ 153,748,696
Endowment Funds Held by USC Foundations	\$ 278,238,402	-	\$ 278,238,402

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Schedule of the Campuses' Proportionate Share of the Net Pension Liability
As of June 30**

	SCRS		
	2016	2015	2014
Campuses' proportion of the net pension liability	3.44617%	3.45256%	3.45256%
Campuses' proportionate share of the net pension liability	<u>\$ 653,583,503</u>	<u>\$ 594,431,289</u>	<u>\$ 619,266,649</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 227,051,819</u>	<u>\$ 213,526,173</u>	<u>\$ 212,408,093</u>
Campuses' proportionate share of the net pension liability as a percentage of its covered-employee payroll	287.86%	278.39%	291.55%
Plan fiduciary net position as a percentage of the total pension liability	56.99%	59.90%	56.39%

	PORS		
	2016	2015	2014
Campuses' proportion of the net pension liability	0.407142%	0.411620%	0.411620%
Campuses' proportionate share of the net pension liability	<u>\$ 8,873,651</u>	<u>\$ 7,886,324</u>	<u>\$ 8,532,719</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 5,112,939</u>	<u>\$ 4,964,416</u>	<u>\$ 4,510,969</u>
Campuses' proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.55%	158.86%	189.15%
Plan fiduciary net position as a percentage of the total pension liability	64.57%	67.50%	62.98%

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Schedule of the Campuses' Contributions
For the Year Ended June 30**

	SCRS		
	2016	2015	2014
Contractually required contribution	\$ 37,176,186	\$ 35,495,129	\$ 33,225,459
Contributions made to pension plan	37,176,186	35,495,129	33,225,459
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Campuses' covered employee payroll	\$ 229,659,380	\$ 227,051,819	\$ 213,526,173
Contributions as a portion of covered employee payroll	16.19%	15.63%	15.56%

	PORS		
	2016	2015	2014
Contractually required contribution	\$ 686,322	\$ 681,738	\$ 635,671
Contributions made to pension plan	686,322	681,738	635,671
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Campuses' covered employee payroll	\$ 5,037,053	\$ 5,112,939	\$ 4,964,416
Contributions as a portion of covered employee payroll	13.63%	13.33%	12.80%

**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 of America, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated October 25, 2016. Our report includes a reference to other auditors who audited the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust (the Trust); the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, (collectively referred to as the Trust and the Foundations), as described in our report on the Campuses' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundations, excluding the South Carolina Research Foundation, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001 and 2016-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

Campuses' Response to Findings

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

Purpose of this Report

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

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

Columbia, South Carolina
October 25, 2016

University of South Carolina – Columbia and Regionals

Schedule of Findings

For the year ended June 30, 2016

I. Summary of Auditor's Results

Financial Statements

(a.) Type of auditor's report:	Unmodified
(b.) Internal control over financial reporting:	
1) Material weaknesses identified:	Yes
2) Significant deficiencies identified that are not considered to be material weaknesses:	None reported
(c.) Noncompliance material to financial statements noted:	No

II. Financial Statement Findings:

2016-001: Capital Assets

Criteria: Generally accepted accounting principles (GAAP) requires that capital asset activity be accurately recorded in the financial statements.

Condition: We noted the following instances related to capital assets:

User Access Audit Trail

- The new PeopleSoft module used to record capital assets, "Asset Module," does not track the preparer or reviewer when edits are made within the module.

Financial Statement Classifications

- Depreciation of approximately \$4.1 million for land improvements was not correctly classified in the "Asset Module" of PeopleSoft leading to an incorrect financial statement presentation.
- The initial capital asset rollforward provided by the Controller's Office equally overstated the additions and reductions to various capital asset categories due to transfers and adjustments posted during the PeopleSoft implementation. In addition, the loss on disposal of capital assets per the statements did not tie to the initial capital asset rollforward by approximately \$1.3 million.

Financial Statement Adjustments

- Four CIP projects had overstated costs totaling approximately \$4.1 million. Costs were overstated because a fiscal year 2015 accounts payable entry was double counted. Of these four projects, two projects were subsequently capitalized during fiscal year 2016 which also caused overstatement of depreciation expense.
- Ten assets identified for disposal by Consolidated Services were not properly recorded as disposed of in the "Asset Module."
- Subsequent to the PeopleSoft implementation, approximately \$538,000 in support costs were incorrectly capitalized.

Context: We noted the above condition during testing of capital assets. Our procedures included testing additions, disposals, depreciation and evaluation for impairment.

Effect: The above conditions present a significant risk of capital assets being materially misstated.

University of South Carolina – Columbia and Regionals

Schedule of Findings

For the year ended June 30, 2016

2016-001: Capital Assets, Continued

Cause: Lack of adequate review around the Campuses' capital asset activity and balances.

Recommendation: We recommend that the Campuses implement procedures to ensure that capital asset activity is properly monitored, recorded and reviewed throughout the year.

Views of responsible officials and planned corrective actions: Management agrees with the finding and recommendation. With the implementation of the new finance system during the 2016 fiscal year, the Controller's Office recorded some reclassifications in order to align the Financial Statements with the Asset Module. These reclassifications did not affect the ending balances in Capital Assets but were necessary to accurately record asset information in the new system. The Capital Asset Module was not fully implemented and functional until March 2016. Disposals and construction-in-progress (CIP) were not a part of the original implementation and therefore were not integrated in the new system. The Controller's Office acknowledges the risk of errors in recording information manually and procedures are now in place to review and analyze entries on a monthly basis. The Controller's Office will continue to refine the processes within the Capital Asset Module ensuring that all entries and adjustments are prepared and reviewed independently. Implementation of the disposals and CIP within the system will be completed by March 31, 2017. The new Capital Asset Module provides a higher level of analysis and is more transparent than in previous years. The Controller's Office will ensure all capital asset activity and balances are reviewed, along with disposals and CIP, as a part of the month-end and year-end processes.

2016-002: Grants Revenue and Accounts Receivable

Criteria: GAAP requires that grant revenue and grant receivables be accurately recorded in the financial statements.

Condition: We identified an approximate \$8.8 million adjustment related to reimbursable costs that had been incurred but not recorded as federal grant revenue and accounts receivable. We also noted an approximate \$1.2 million passed adjustment to record nonfederal grant revenue and accounts receivable.

Context: We noted the above condition during an analytical comparison of federal grant revenues to federal expenditures.

Effect: Grant revenue and accounts receivable were understated by approximately \$10 million.

Cause: Procedures relating to the recording of grants revenue and the related receivables were not followed.

Recommendation: We recommend that the Campuses implement procedures to ensure proper recording and review of grant revenue and accounts receivable.

Views of responsible officials and planned corrective actions: Management agrees with the finding and recommendation. The Controller's Office quantified the condition and provided a financial statement adjustment to correct this. Action has been taken to amend business practices to include a monthly review of grant activity by the accounting managers to detect unbilled transactions. Reporting tools have been developed to aid in the analysis of grant revenues versus expenditures, and to identify over-the-limit transactions. The new procedures have been communicated to the grant accountants with a requirement that each review customer contracts and increase billing limits, as appropriate, each month.