

13.1

Financial Resources

The institution has sound financial resources and a demonstrated, stable financial base to support the mission of the institution and the scope of its programs and services.

Judgment

Compliant Non-Compliant Not Applicable

Narrative

The University of South Carolina has a long history of financial stability, which we define as the sound financial base and adequate physical resources to meet the university's mission and maintain the exceptional quality of our educational experiences for students. This stability is demonstrated by financial data provided in the university's audited financial statements for the fiscal years ending June 30, 2017 through June 30, 2019. These statements document a consistent pattern of growth in revenue, expenditures, and net position.

Financial Statements

University System

The annual audited financial statements for the university system for the fiscal years ending [June 30, 2017](#), [June 30, 2018](#) and [June 30, 2019](#) document consistent growth in revenue, expenditures, and net assets. The most recent audit confirms the University of South Carolina's financial strength with net position of \$1.66 billion, excluding net pension liability (GASB 68) and net OPEB liability (GASB 75), an increase of \$127.6 million over the previous year.

For the fiscal year ended June 30, 2019, the University of South Carolina System's unrestricted net position was \$546.9 million excluding net pension liability and net OPEB liability. In the previous year at June 30, 2018, the University of South Carolina System's unrestricted net position was \$491.1 million excluding net pension liability and net OPEB liability. The University of South Carolina System's unrestricted net position increase of \$55.8 million is an indicator of the university's financial stability.

The University of South Carolina System's associated GASB 68 and GASB 75 liability is \$1.89 billion which is 5% of the total State of South Carolina's liability of \$39.72 trillion.

Over the last 5 years, the University of South Carolina System's unrestricted net position has increased 45% or \$169.0 million, an average of 8.9% annually. Revenue growth has been steady and consistent. In addition, expenses have been managed well in order to build stability and continuity of net position growth.

University of South Carolina System

Unrestricted Net Position Trend Analysis

	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	FY15 to FY19 Change	FY15 to FY19 % Change
Unrestricted Net Position excluding GASB 68 and GASB 75	377,930,371	414,829,038	452,503,864	491,128,411	546,905,549	168,975,178	44.71%
Unrestricted Net Position as reported	(333,446,837)	(308,778,633)	(298,737,706)	(1,212,406,069)	(1,210,499,896)	(877,053,059)	-263.03%

The annual external audit includes five separate audits of the University of South Carolina system. These five audits are: the University of South Carolina System; the University of South Carolina Columbia and the four regional Palmetto College campuses at Lancaster, Salkehatchie, Sumter and Union; and the three comprehensive institutions of Aiken, Beaufort, and Upstate.

The University of South Carolina Columbia and the regional Palmetto College campuses makes up approximately 89% of the overall net position, expenditures and revenues of the university system and information specific to University of South Carolina Columbia follows. The chart below shows the effect of GASB 68 and 75 on the university's financial statements in comparison.

University of South Carolina System
 Summary of Net Position as reported and excluding GASB 68 and GASB 75

	2019 as reported	2019 excluding GASB 68 and GASB 75
<i>Assets:</i>		
Current assets	\$ 857,217,602	\$ 857,217,602
Capital assets, net	1,461,701,342	1,461,701,342
Other noncurrent assets	115,132,871	115,132,871
Total assets	2,434,051,815	2,434,051,815
<i>Deferred outflows of resources</i>		
Deferred loss on debt refunding	19,877,647	19,877,647
Deferred outflows related to net OPEB liability	65,729,691	-
Deferred outflows related to net pension liability	150,663,959	-
Total deferred outflows of resources	236,271,297	19,877,647
<i>Liabilities:</i>		
Current liabilities	169,037,161	169,037,161
Non-current liabilities	2,520,067,345	627,788,856
Total liabilities	2,689,104,506	796,826,017
<i>Deferred inflows of resources</i>		
Deferred inflows related to net OPEB liability	74,833,981	-
Deferred inflows related to net pension liability	6,686,626	-
Total deferred inflows of resources	81,520,607	-
<i>Net Position:</i>		
Net investment in capital assets	855,078,903	855,078,903
Restricted - nonexpendable	86,794,706	86,794,706
Restricted - expendable	168,324,286	168,324,286
Unrestricted	(1,210,499,896)	546,905,549
Total net position	\$ (100,302,001)	\$ 1,657,103,445

Columbia and regional Palmetto College campuses

The annual audited financial statements for the University of South Carolina Columbia for the fiscal years ending [June 30, 2017](#), [June 30, 2018](#) and [June 30, 2019](#) document consistent growth in revenue, expenditures, and net assets. The most recent audit confirms the University of South Carolina Columbia's financial strength with a net position of \$1.46 billion, excluding net pension liability (GASB 68) and net OPEB liability (GASB 75), an increase of \$108.4 million over the previous year.

Unrestricted net position for the University of South Carolina Columbia was \$481.5 million for fiscal year 2019 compared to \$433.7 million in the prior year, excluding net pension liability and net OPEB liability. The University of South Carolina Columbia's unrestricted net position increase of \$47.8 million is an indicator of its financial stability. The chart below shows the effect of GASB 68 and 75 on the University of South Carolina Columbia's financial statements in comparison.

USC Columbia and Regionals
Summary of Net Position as reported and excluding GASB 68 and GASB 75

	2019 as reported	2019 excluding GASB 68 and GASB 75
<i>Assets:</i>		
Current assets	\$ 761,274,592	\$ 761,274,592
Capital assets, net	1,277,164,630	1,277,164,630
Other noncurrent assets	112,947,881	112,947,881
Total assets	2,151,387,103	2,151,387,103
<i>Deferred outflows of resources</i>		
Deferred loss on debt refunding	16,248,532	16,248,532
Deferred outflows related to net OPEB liability	56,759,066	-
Deferred outflows related to net pension liability	129,139,321	-
Total deferred outflows of resources	202,146,919	16,248,532
<i>Liabilities:</i>		
Current liabilities	153,375,161	153,375,161
Non-current liabilities	2,176,864,632	554,884,688
Total liabilities	2,330,239,793	708,259,849
<i>Deferred inflows of resources</i>		
Deferred inflows related to net OPEB liability	64,953,795	-
Deferred inflows related to net pension liability	5,156,979	-
Total deferred inflows of resources	70,110,774	-
<i>Net Position:</i>		
Net investment in capital assets	743,058,334	743,058,334
Restricted - nonexpendable	86,276,384	86,276,384
Restricted - expendable	148,568,487	148,568,487
Unrestricted	(1,024,719,750)	481,472,580
Total net position	\$ (46,816,545)	\$ 1,459,375,786

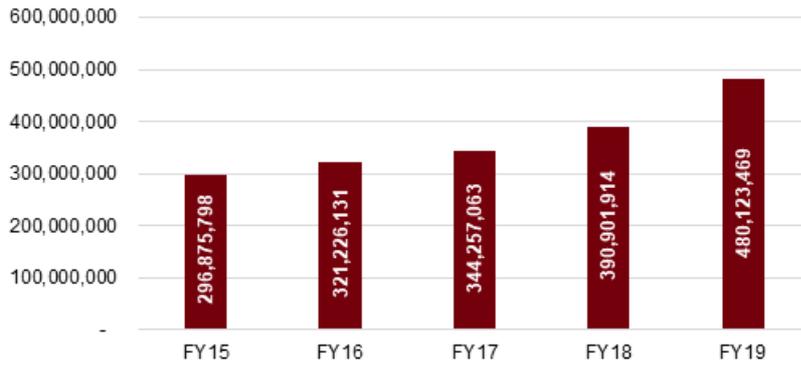
Over the last 5 years, the University of South Carolina Columbia's unrestricted net position has increased 41.47% or \$141.1 million, an average of 8.3% annually. Net tuition revenue growth has been steady and consistent. In addition, expenses have been managed and growth controlled. In the development of the fiscal year 2020 budget, all units continue to be assessed 3% set-aside to fund initiatives associated with the strategic plan.

USC Columbia and Regionals
Unrestricted Net Position Trend Analysis

	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	FY15 to FY19 Change	FY15 to FY19 % Change
Unrestricted Net Position: excluding GASB 68 and GASB 75	340,345,074	370,700,145	401,900,957	433,677,555	481,472,580	141,127,506	41.47%
Unrestricted Net Position: as reported	(259,757,574)	(238,725,882)	(232,000,502)	(1,026,100,981)	(1,024,719,750)	(764,952,176)	-294.48%

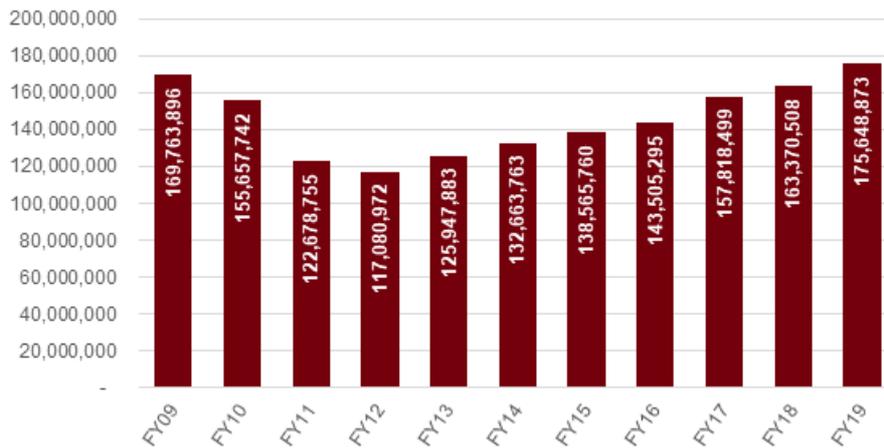
Over the last 5 years, the University of South Carolina Columbia's unrestricted net position exclusive of plant has increased 61.73% or \$181.2 million, an average growth of 12.9% annually. The university continues to have adequate resources to support its education and general and auxiliary operations.

Unrestricted Net Position excluding GASB 68 & 75 and Unexpended Plant Funds

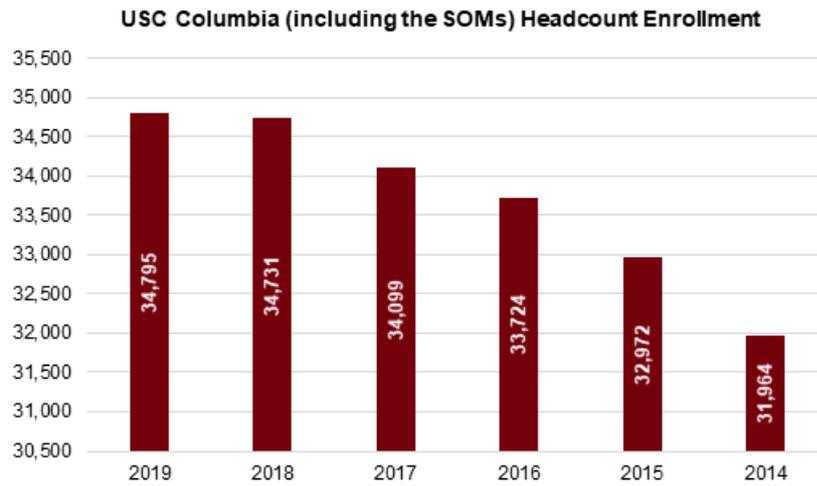


The University of South Carolina receives income from state appropriations, tuition and fees, and other sources, such as sales and services, grants, endowments, and interest on investments. At June 30, 2019 state appropriations for the University of South Carolina System totaled \$175.6 million, an increase of \$12.3 million over the prior year. The University of South Carolina Columbia’s portion of the state appropriations is \$150.0 million for fiscal year 2019. Over the last decade state appropriations decreased significantly up until 2012 where state appropriations began an upward trend. State appropriations account for approximately 18% of the operating budget in fiscal year 2019.

State Appropriations



Although the University of South Carolina Columbia has a challenging operating environment regarding state appropriations, tuition and fees have increased and contributed to healthy growth of the university. Tuition and fees less scholarship allowances for the University of South Carolina Columbia totaled \$505.0 million in fiscal year 2019, an increase of \$19.4 million over the previous year. The University of South Carolina Columbia has increased the size of the incoming freshman class while also increasing the academic qualifications. Overall the University of South Carolina Columbia’s enrollment has continued to increase steadily over the last six years.



Despite increases in tuition, the [cost of attendance for the University of South Carolina Columbia campus](#) is below four other public institutions in South Carolina and demand remains high evidenced by increasing applications.

Cash and Cash Equivalents

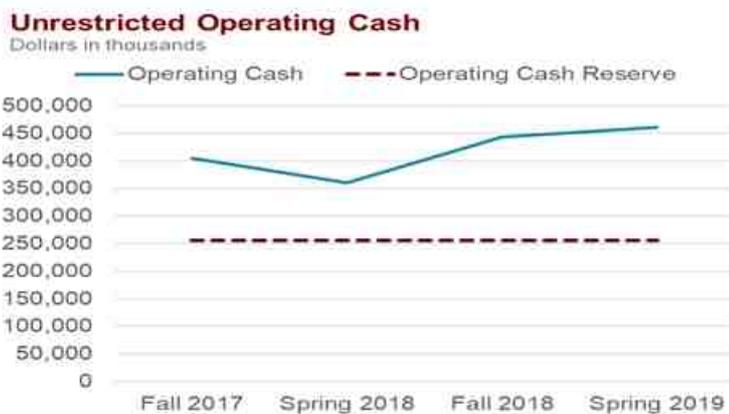
The university has a strong unrestricted operating cash position of \$460 million as of June 30, 2019. The university considers it a priority for cash management and liquidity to maintain a three-month operating cash reserve or more in the event of emergencies, and our current reserve is \$255 million.

Liquidity:

- Current Ratio – Current assets cover liabilities 5.07 times

Reserves:

- Cash and Cash equivalents cover 6.75 months of total operating expenses
- One month of operating expenses - \$108.9 million



Ratio Analysis

Analysis of five core ratios widely used in higher education was performed using information from the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position for the University System excluding GASB 68 and GASB 75. The University of South Carolina Columbia makes up approximately 89% of the overall net position, expenditures and revenues of the university system.

Ratio	FY18-19	FY17-18	FY16-17	Average
Current Ratio	5.07	4.17	4.69	4.64
Primary Reserve Ratio	0.45	0.42	0.41	0.43
Viability Ratio	0.93	0.81	0.78	0.84
Return on Net Position Ratio	8.34%	6.73%	3.90%	6.32%
Net Operating Revenues Ratio	6.74%	4.85%	2.46%	4.68%

The Current Ratio determines the ability of an institution to cover current liabilities using current assets. The university's fiscal year 2019 ratio of 5.07 and the three-year average of 4.64 indicate that current assets are more than sufficient to cover current liabilities.

The Primary Reserve ratio helps to discern if the resources of the institution are sufficient and flexible enough to support the mission. A ratio of .40 or better is considered necessary for financial flexibility. The fiscal year 2019 and three-year average ratio indicate that the university can cover approximately six months of expenses using its expendable reserves.

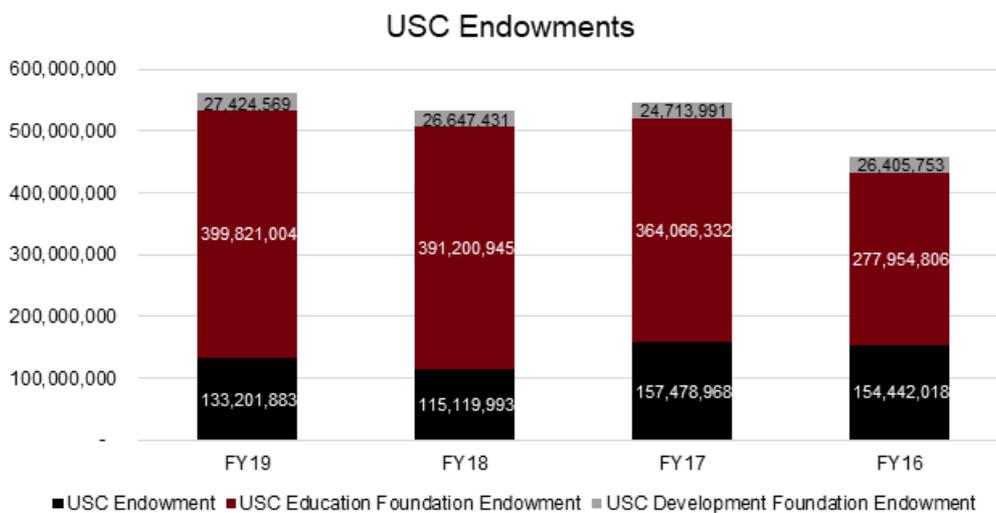
The Viability Ratio analyzes whether the financial resources (including debt) are managed strategically to advance the mission. The ratio measures the availability of expendable net assets to cover debt should the institution need to settle its obligations at the Statement of Net Position date. With the understanding that all debt obligations would not be settled at once, the university has sufficient expendable net assets to cover debt obligations.

The Return on Net Position Ratio analyzes whether the asset performance and management support the institution's strategic direction. This ratio should be between 6% and 7%. The university's fiscal year 2019 ratio is 8.34% and the three-year average is 6.32%.

The Net Operating Revenues Ratio helps to evaluate whether the institution is living within its available resources. The ratio should be between 2% to 4% over an extended period. The university's three-year average is a healthy 4.68%.

Investments and Endowment Management

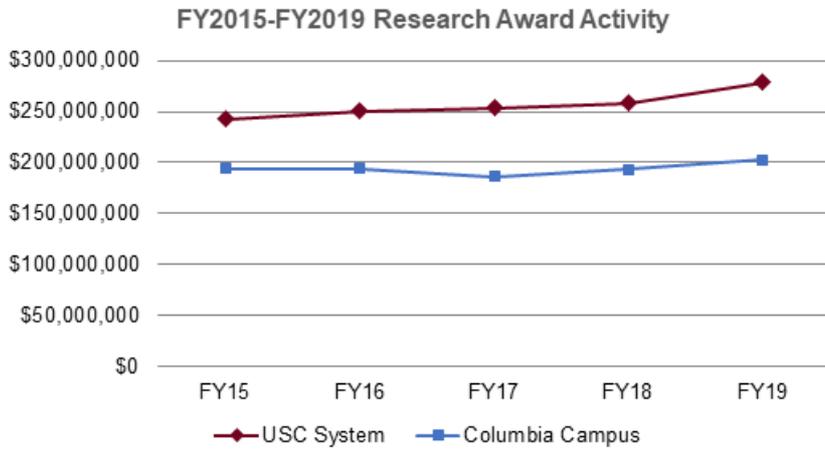
University foundations include the University of South Carolina Development Foundation, the University of South Carolina Educational Foundation, the University of South Carolina Business Partnership Foundation, University of South Carolina Upstate Foundation, University of South Carolina Upstate Capital Development Foundation, Educational Foundation of University of South Carolina Lancaster, Gamecock Club of the University of South Carolina, South Carolina Research Foundation, University of South Carolina School of Medicine Educational Trust, Beaufort-Jasper Higher Education Commission, and the Greater University of South Carolina Alumni Association. The [annual audited financial statements](#) include all university foundations as discretely presented component units. For the year ended June 30, 2019, these foundations have net assets totaling \$793.2 million and increase of \$24.9 million over the previous year. All of the affiliated foundations have annual independent audits and have excellent debt coverage where debt exists. The university endowment continues to be strong and stable.



Sponsored Awards and Grants

The Carnegie Foundation for the Advancement of Teaching has designated the University of South Carolina as an institution of "very high research activity." The University of South Carolina is one of 94 public and 37 private research institutions, to earn the distinction.

Research award funding at the University of South Carolina reached \$278.6 million in fiscal year 2019, an 8.0% increase over last year's total (\$258.1 million) and 14.7% more than five years ago.



The University of South Carolina Columbia makes up approximately 97% of total research awards or approximately \$270.3 million. University researchers were particularly successful in competing for federal research funds, which totaled \$166.5 million in fiscal year 2019. The university continues to diversify its research funding sources with a strong portfolio of federal, state and private dollars with private funding making up 36.8% of the awards for fiscal year 2019. The university's research funding from the U.S. Department of Defense has increased by 56.2% over the past three years, totaling \$6.0 million in fiscal year 2019. Research awards from the National Science Foundation, National Institute of Health and US Department of Health and Human Services remain strong at 72.2% of the University's total federal awards for fiscal year 2019.

Capital Assets & Bond Indebtedness

The University of South Carolina system has \$1.46 billion invested in capital assets as of June 30, 2019, an increase of \$53.3 million over June 30, 2018. Accumulated depreciation for the year ended June 30, 2019 was \$1.05 billion compared to \$996.7 million in 2018. Of the total investment in capital assets, the University of South Carolina Columbia has \$1.28 billion as of June 30, 2019 or an increase of \$51.3 million over June 30, 2018. The University of South Carolina Columbia's annual depreciation expense was \$63.3 million.

The maintenance, acquisition, construction and improvements of university facilities are a critical component of the financial stability of the University of South Carolina. To fulfill its mission, the University of South Carolina makes ongoing strategic capital investments for additional academic, student life, athletic, housing, parking and other plant facilities using an appropriate mix of funding sources including State capital improvement bonds and appropriations, State institution bonds, revenue bonds, internal reserves, and private giving.

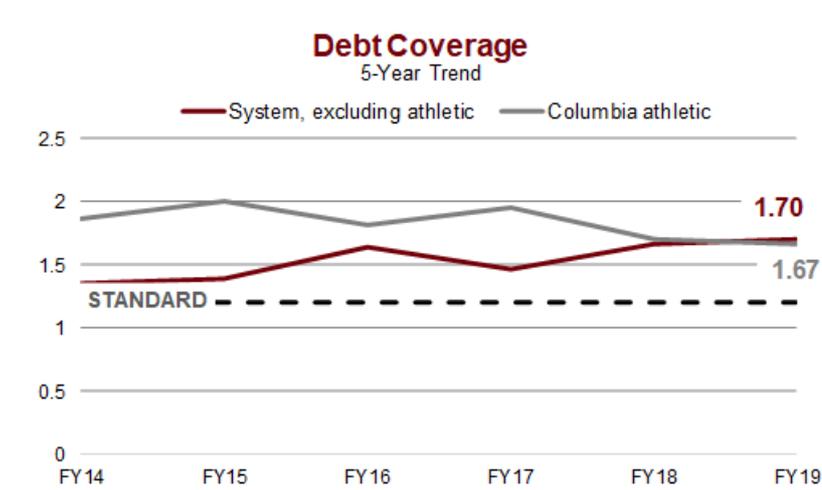
The university's capital planning policy, [FINA 7.00 Capital Planning Policy](#), ensures the appropriate planning of capital investments. The policy also provides guidance on the strategic use of debt and the use of various funding sources. Debt is utilized as a valuable source of capital project financing and its use is limited to projects that support the mission and strategic objectives of the University. This policy provides a discipline and framework that will be used by management to evaluate the appropriate use of debt in capital financing plans.

On June 30, 2019 the University had \$560.7 million in outstanding bond indebtedness. The University of South Carolina Columbia's portion of this debt is \$496.5 million.

Category of Indebtedness	Amount Outstanding
State Institution Bonds	
Columbia	\$ 135,141,000
School of Medicine	2,245,000
Aiken	5,254,000
Beaufort	10,420,000
Upstate	1,860,000
Subtotal	154,920,000
Revenue Bonds	
Columbia - Housing	\$ 122,915,000
Columbia - Parking	8,855,000
Columbia - Academic	53,755,000
Aiken - Housing	17,720,000
Upstate - Housing	25,395,000
Upstate - Bookstore	3,510,000
Subtotal	232,150,000
Athletic Facilities Revenue Bonds	
Columbia	\$ 173,600,000
Total outstanding as of June 30, 2019	\$ 560,670,000

The university has maintained above the standard benchmark of 1.2 for revenue bond debt coverage ratio for all of the last five years and continues to have a strong debt coverage ratio of 1.7 at the end of fiscal year 2019.

The Athletic Facilities Revenue Bonds also continue to have a strong debt coverage ratio of 1.67 at the end of fiscal year 2019.



Annually the amount of debt and debt service are reported in the audited financial statements and compiled in a bond indebtedness report that includes a statement of bond indebtedness, summary of current year activity, and amortization schedules of all types of debt at the summary level and for each individual debt series issued. Plans for future borrowing are manageable.

Bond Indebtedness Reports are provided for [2019](#), [2018](#), and [2017](#).

Further evidence of the University of South Carolina's financial stability is demonstrated by maintenance of strong credit ratings for debt issuance for capital projects. In August 2017 Moody's Investors Service assigned a Aa2 rating to the University of South Carolina's proposed approximately \$21 million of Higher Education Refunding Revenue Bonds, Series 2017A and a Aa3 rating to the proposed approximately \$48 million of Athletic Facilities Revenue Bonds Refunding Series 2017B. Moody's maintains Aa2 and Aa3 ratings on the University's approximately \$450 million of outstanding Higher Education, Special Higher Education, and Athletic Facilities Revenue Bonds. Fitch Ratings for the same issue was AA. The current [Continuing Disclosure Document](#) offers more detail regarding revenue bonds.

Sources

-  Bond_Indebtedness_2017
-  Bond_Indebtedness_2018
-  Bond_Indebtedness_2019
-  Cola_Regional_FY16-17
-  Cola_Regional_FY17-18
-  Cola_Regional_FY18-19
-  Comprehensive_Annual_FR_AY16-17
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-  Comprehensive_Annual_FR_AY18-19
-  Continuing_Disclosure_Annual_Report_2019
-  FINA 7.00 Capital Planning Policy
-  Financial Statements & Other Reports
-  Fitch Rating.August 2017
-  Moody's Rating.August 2017
-  Single_Audit_Report_FY16-17
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-  Single_Audit_Report_FY18-19
-  Tuition_Fees_AY18-19