

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2020

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, 2020, 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 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, which represent approximately 99 percent, 98 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. 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; the Educational Foundation of the University of South Carolina - Lancaster, and the Gamecock Club of the University of South Carolina were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, 2020, 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, the Schedule of the Campuses' Contributions Related to the Pension Liability, the Schedule of the Campuses' Proportionate Share of the Net OPEB Liability, and the Schedule of the Campuses' Contributions Related to the OPEB Liability, 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 September 30, 2020, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campuses' internal control over financial reporting and compliance.

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

Columbia, South Carolina
September 30, 2020

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, 2020, with comparative information for the fiscal year ended June 30, 2019. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2020 and 2019 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 and the Gamecock Club.

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.

The 2019 novel coronavirus (COVID-19) has impacted the physical and financial health of the Campuses which required extensive planning to mitigate and respond to COVID-19. The Campuses established a Future Planning Group (FPG) comprised of faculty and staff representing all facets of the Campuses operations from public health, admissions and enrollment, academics and research, finance, and athletics. The FPG was charged with examining the potential impacts of COVID-19 on the Campuses past the 2020 summer session and making policy recommendations concerning the safe return of students and employees to campus, mitigating any ongoing public health and safety risks, and analyzing the financial implications for fall 2020 and beyond. All the planning was guided by four core principles: protecting the health, safety and welfare of our employees and students, limiting and mitigating the spread of the virus in our community, maintaining academic and research excellence and sustaining core Campuses functions.

The COVID-19 fiscal impact during fiscal year 2020 was primarily in two areas: 1) refunds given to students for housing, dining, and parking and transportation and 2) costs for personal protective equipment (PPE), cleaning and sanitation and virus testing and tracing. Refunds to students were \$16.1 million for the Campuses, and mitigation costs exceeded \$8.8 million. The Campuses addressed this impact by implementing travel restrictions and hiring freezes, renegotiating contracts and eliminating contracts. Federal CARES Act funds as well as FEMA Disaster Relief funds are available to mitigate some of the refunds and additional costs.

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.

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- 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. 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.

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(Unaudited)

Summary of Net Position

	2020	2019	Increase/ (Decrease)	Percent Change
ASSETS				
Current assets	\$ 830,975,662	\$ 761,274,592	\$ 69,701,070	9.16%
Capital assets, net	1,272,111,945	1,277,164,630	(5,052,685)	-0.40%
Other noncurrent assets	107,115,122	112,947,881	(5,832,759)	-5.16%
Total assets	<u>2,210,202,729</u>	<u>2,151,387,103</u>	<u>58,815,626</u>	2.73%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	15,119,690	16,248,532	(1,128,842)	-6.95%
Deferred outflows related to net OPEB liability	106,102,189	56,759,066	49,343,123	86.93%
Deferred outflows related to net pension liability	105,786,360	129,139,321	(23,352,961)	-18.08%
Total deferred outflows of resources	<u>227,008,239</u>	<u>202,146,919</u>	<u>24,861,320</u>	12.30%
LIABILITIES				
Current liabilities	157,274,920	153,375,161	3,899,759	2.54%
Noncurrent liabilities	2,200,585,893	2,176,864,632	23,721,261	1.09%
Total liabilities	<u>2,357,860,813</u>	<u>2,330,239,793</u>	<u>27,621,020</u>	1.19%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net OPEB liability	92,791,691	64,953,795	27,837,896	42.86%
Deferred inflows related to net pension liability	5,680,367	5,156,979	523,388	10.15%
Total deferred inflows of resources	<u>98,472,058</u>	<u>70,110,774</u>	<u>28,361,284</u>	40.45%
NET POSITION				
Net investment in capital assets	756,612,771	743,058,334	13,554,437	1.82%
Restricted - nonexpendable	85,219,993	86,276,384	(1,056,391)	-1.22%
Restricted - expendable	135,208,001	148,568,487	(13,360,486)	-8.99%
Unrestricted	(996,162,668)	(1,024,719,750)	28,557,082	-2.79%
TOTAL NET POSITION	<u>\$ (19,121,903)</u>	<u>\$ (46,816,545)</u>	<u>\$ 27,694,642</u>	-59.16%

- Total assets of the Campuses increased by \$58.8 million, or 2.73 percent largely due to decreases in accounts receivable of \$11.6 million and an increase in cash and cash equivalents of \$79.3 million
- 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, related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 5 - *Pension Plans*, for more information. Also included are the contributions after the measurement date and differences between the actual and expected experience in relation to Postemployment Benefits Other Than Pensions (OPEB) recorded for the Campuses' proportionate share of the State's net health and long-term disability liability related to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 6 - *Postemployment and Other Employee Benefits* for more information.
- Noncurrent liabilities increased by \$23.7 million, or 1.09 percent. The noncurrent liabilities include net pension liability of \$848.7 million, OPEB liability of \$831.1 million and \$504.9 million in bonds payable. The overall increase in noncurrent liabilities is due to the increase in net pension liability of \$20.3 million and net OPEB

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liability of \$37.5 million. For additional information on the change in net pension and OPEB liabilities, refer to Notes 5 and 6.

- Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension and other postemployment benefits plans. Also included are the changes in the Campuses' proportionate share and differences between Campuses' contributions and proportionate share of contributions.

Net Position

The net position of the Campuses increased during the year by \$27.7 million. The increase is driven by the following:

Net investment in capital assets represents the Campuses' capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The change in net investment in capital assets of \$13.6 million is primarily attributable to a \$28.2 million decrease in debt used to finance those capital assets, offset by a decrease in unspent bond funds of \$12.7 million.

Restricted nonexpendable net position represents the historical value (corpus) of the Campuses' permanent endowments, which cannot be expended due to donor restrictions. The decrease in nonexpendable net position reflects a change in the stock valuation of \$1.1 million.

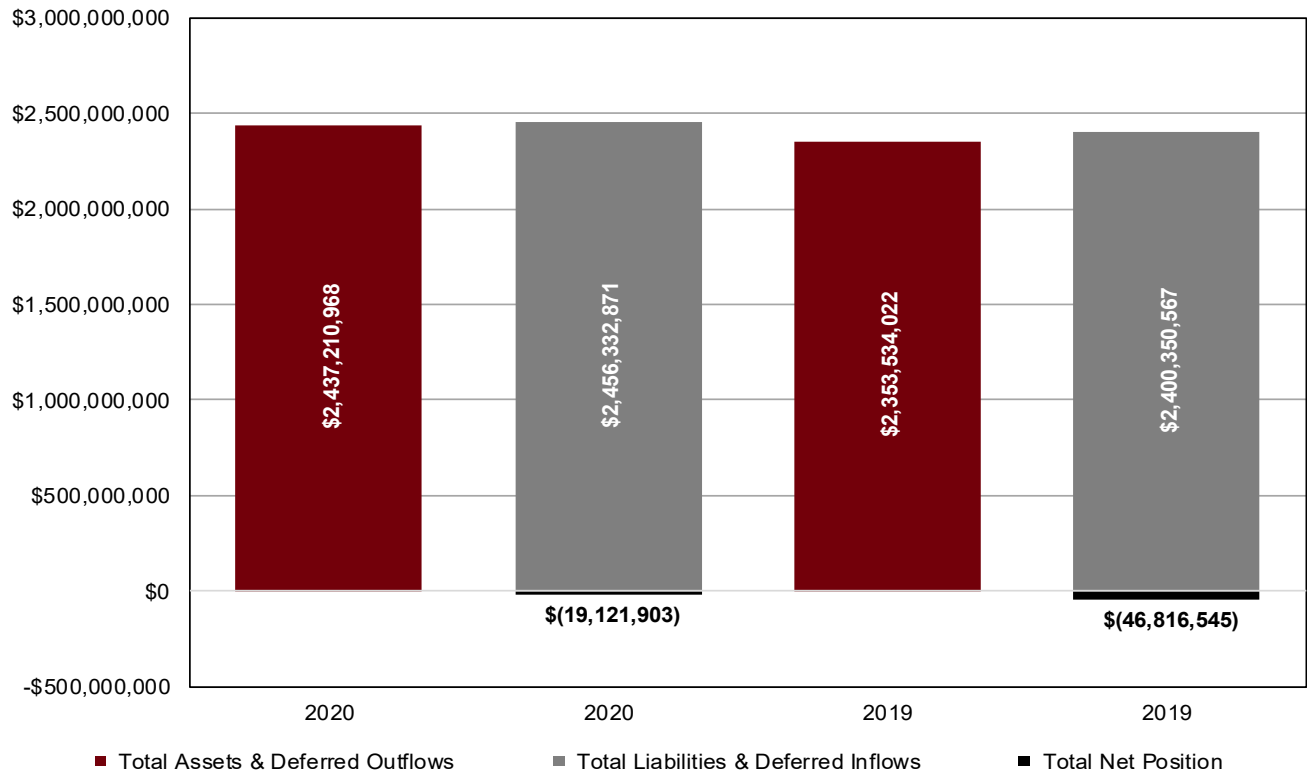
Restricted expendable net position includes spendable earnings on permanent and quasi-endowments, gifts, capital project funds, and loan funds that are subject to externally imposed restrictions governing their use. Restricted expendable net position decreased \$13.4 million due to the completion of several large construction projects.

Unrestricted net position includes all other activities that are both spendable and not subject to externally imposed restrictions. The majority of the Campuses' unrestricted net position has been internally designated for the core mission activities of instruction and research and associated programs and initiatives, and capital projects that align with the Campuses' highest priorities. The unrestricted net position demonstrates the impact of the GASB 68 and GASB 75 through the noncurrent liabilities of net pension liability of \$848.7 million and OPEB liability of \$831.1 million.

Considering the Campuses' financial position excluding the pension and OPEB liabilities, the unrestricted net position increased by \$87.9 million, a 6 percent increase over 2019.

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



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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.

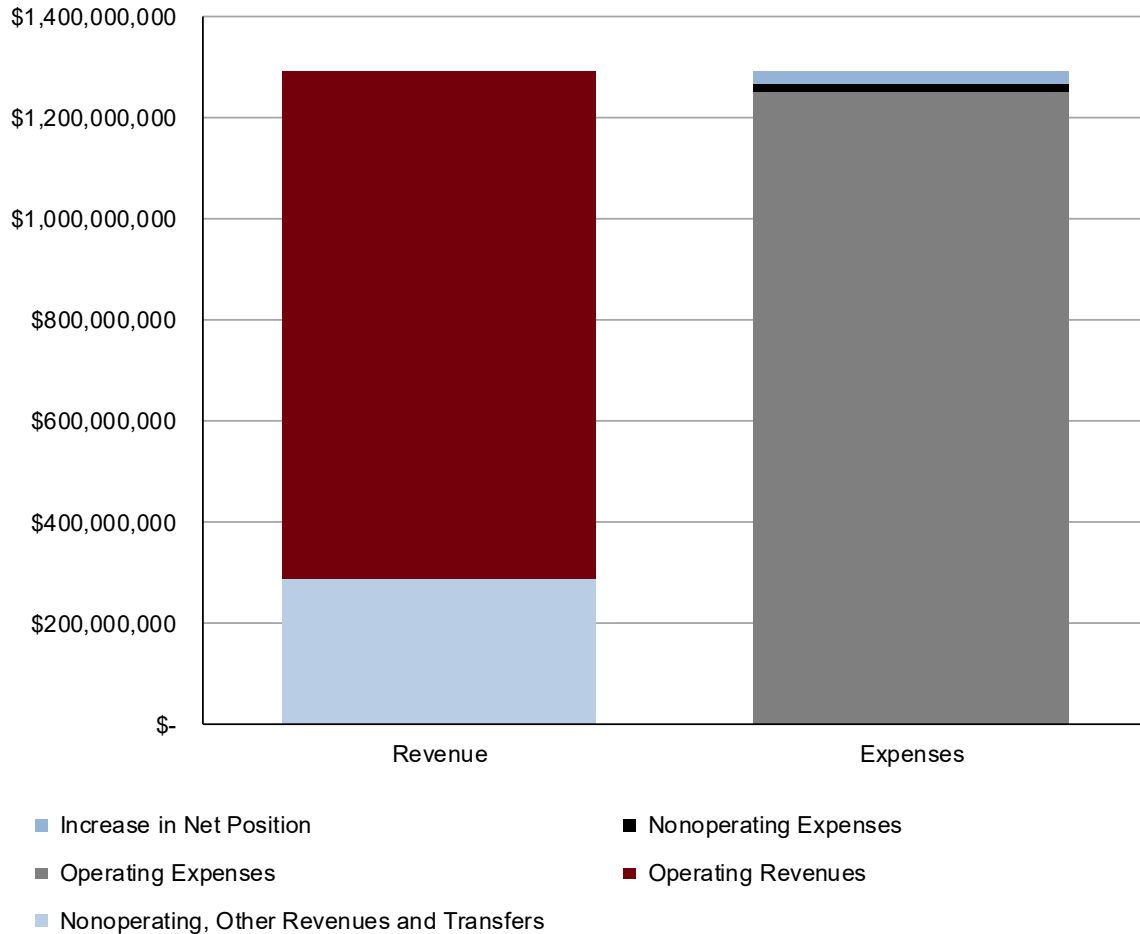
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Summary of Revenues, Expenses and Changes in Net Position

	2020	2019	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student tuition and fees	\$ 799,496,520	\$ 774,781,690	\$ 24,714,830	3.19%
Less: scholarship allowance	(291,405,487)	(269,807,978)	(21,597,509)	8.00%
Federal grants and contracts	145,477,605	134,478,717	10,998,888	8.18%
State grants and contracts	101,896,474	98,485,814	3,410,660	3.46%
Local grants and contracts	653,309	1,002,169	(348,860)	-34.81%
Nongovernmental grants and contracts	39,180,110	47,112,524	(7,932,414)	-16.84%
Sales and services of educational and other activities	27,383,906	28,148,166	(764,260)	-2.72%
Sales and services of auxiliary enterprises	164,080,668	177,834,950	(13,754,282)	-7.73%
Less: scholarship allowance	(2,818,945)	(2,875,923)	56,978	-1.98%
Interest collected on student loans	290,257	314,561	(24,304)	-7.73%
Other fees	13,728,504	12,834,771	893,733	6.96%
Other operating revenues	5,223,336	6,852,240	(1,628,904)	-23.77%
Total operating revenues	1,003,186,257	1,009,161,701	(5,975,444)	-0.59%
NONOPERATING REVENUES				
State appropriations	169,517,167	150,030,063	19,487,104	12.99%
Federal grants	31,899,864	33,275,950	(1,376,086)	-4.14%
Gifts	41,444,375	43,843,035	(2,398,660)	-5.47%
Investment income	10,807,151	10,321,336	485,815	4.71%
Endowment income	14,588,133	13,527,669	1,060,464	7.84%
Gain on disposal of capital assets	-	649,368	(649,368)	-100.00%
Total nonoperating revenues	268,256,690	251,647,421	16,609,269	6.60%
Total revenues	1,271,442,947	1,260,809,122	10,633,825	0.84%
OPERATING EXPENSES				
Salaries and wages	549,783,451	537,477,234	12,306,217	2.29%
Fringe benefits	270,389,108	240,929,855	29,459,253	12.23%
Services and supplies	304,716,175	307,057,935	(2,341,760)	-0.76%
Utilities	25,326,382	26,266,638	(940,256)	-3.58%
Scholarships and fellowships	32,313,589	29,350,744	2,962,845	10.09%
Depreciation expense	68,764,487	63,323,926	5,440,561	8.59%
Total operating expenses	1,251,293,192	1,204,406,332	46,886,860	3.89%
NONOPERATING EXPENSES				
Loss on disposal of capital assets	907,851	-	907,851	0.00%
Interest on capital asset related debt	12,625,580	11,963,928	661,652	5.53%
Total nonoperating expenses	13,533,431	11,963,928	1,569,503	13.12%
Total expenses	1,264,826,623	1,216,370,260	48,456,363	3.98%
Other revenues and transfers	21,078,318	17,518,265	3,560,053	20.32%
Change in net position	27,694,642	61,957,127	(34,262,485)	-55.30%
Net position, beginning of year	(46,816,545)	(108,773,672)	61,957,127	-56.96%
NET POSITION, END OF YEAR	\$ (19,121,903)	\$ (46,816,545)	\$ 27,694,642	-59.16%

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

Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020



The Statement of Revenues, Expenses and Changes in Net Position reflects the Campuses' results of activities for the year. Some highlights of the information presented on this summary are as follows:

- Operating revenues decreased \$6.0 million due to sales and services auxiliary revenue decreases (net of the scholarship discounts and allowances) offset by changes in student tuition and fees (net of scholarship discounts and allowances) and contract and grant revenue.
 - Student tuition and fee revenue, net of the scholarship discounts and allowances, increased by \$3.1 million or 0.61 percent, primarily due to a 0.57 percent tuition increase for the Columbia campus.

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- Contracts and grants revenue increased by \$6.1 million due to federal CARES act funds of approximately \$8.5 million for student emergency grants.
- Sales and services of auxiliary enterprises, net revenues decreased \$13.7 million, or 7.8 percent in fiscal year 2020 due to housing and parking refunds of \$10.6 million due to campus closures related to COVID-19.

Nonoperating revenues increased by \$16.6 million due to increases in state appropriation revenue. State appropriation revenue increases included tuition mitigation funding and salary increases of 2 percent for employees with annual salaries below \$100,000, \$2 million for the Rural Health Initiative for the Columbia School of Medicine, and \$1.1 million in funding for the South Carolina Children's Advocacy Medical Response System.

- Operating expenses increased \$46.9 million, or 3.89 percent over the prior year due to the following:
 - The majority of the increase, approximately \$41.8 million, was driven by salaries and fringes increases due to GASB 68 and GASB 75 as well as the 2 percent increase in salaries.
 - Scholarship and fellowship increase of \$3.0 million is primarily due to federal CARES act student emergency grants.
 - Depreciation expense increased \$5.4 million due to addition of new capital assets.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital projects consist of replacement, renovation, and new construction of academic and research facilities, as well as significant investments in equipment and information systems.

The Campuses issued no new debt during the fiscal year.

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

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Management's Discussion and Analysis
(Unaudited)

ECONOMIC OUTLOOK

The economic position of the Campuses remains robust evidenced by consistent operating revenue growth, strong increases in net tuition and fee revenue due to demand for enrollment, and stable, manageable changes in operating expenditures. As a state-supported higher education institution, the Campuses' economic position is closely tied to the State of South Carolina. The State finished the 2020 fiscal year on a very positive note with full funding of the State's Rainy-Day Fund at 5 percent of the prior year's General Fund Revenues and fully funded the Capital Reserve Account at 2 percent of the prior year's General Fund Revenues. COVID-19 emerged as a dangerous public health crisis in March, and the damage grew as many lives were being lost to the disease. Businesses closed, producing many layoffs. The impact of this on the statewide economy was severe and almost immediate, resulting in significant erosions in state tax revenues. The state experienced a revenue surplus of more than \$672 million despite the impact of COVID-19. Individual income taxes and sales tax revenues continue to be strong despite decreases due to COVID-19.

For fiscal year 2021, the Campuses had anticipated additional funding to support academic initiatives that promote access and affordability through tuition mitigation for residents of South Carolina, however the State of South Carolina is operating under a continuing resolution for the foreseeable future. The Campuses anticipate funding from the state to be flat due to COVID-19 when the funding plan for fiscal year 2021 is addressed.

The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and with added state support for fiscal year 2021 the University has been able to mitigate the tuition increase for 2021. For fiscal year 2021, the University did not have a tuition increase. An average increase of 2.8 percent in student housing and 3.1 percent in dining plans will be used to improve dining, housing and student life facilities.

Demand for enrollment and interest in the University remains strong and continues to grow, with a record number 34,700 applications received for Fall 2020, an increase of over 11 percent from the prior year. Preliminary data indicates over 7,750 new students on the Columbia campus, of which 5,776 are new freshmen. Overall enrollment is expected to increase by 1 percent.

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 University campuses annually receive more than \$99.3 million across the different scholarship programs. Additionally, funding from lottery proceeds supports technology needs at the system comprehensive and Palmetto College campuses.

Research grant awards for the Campuses were \$272 million in fiscal year 2020, only a slight increase over the previous fiscal year, with much of the research being halted due to COVID-19 in the last quarter of the fiscal year. Awards in fiscal year 2021 are trending higher and are estimated to surpass fiscal year 2020 with many awards focusing on COVID-19.

The Campuses' total endowment is currently \$621 million, with \$492.8 million held by the University Foundations. The endowment is comprised of a mix of restricted and unrestricted, quasi endowed, term endowed and permanently endowed funds.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Net Position
As of June 30, 2020

ASSETS

Current assets:	
Cash and cash equivalents	\$ 653,391,930
Restricted - cash and cash equivalents	126,030,755
Accounts receivable, net	48,149,773
Student loans receivable, current	501
Inventories	2,038,685
Prepaid items	657,685
Funds due from others	706,333
Total current assets	<u>830,975,662</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	89,378,796
Investments	4,936,278
Prepaid items	1,600,000
Restricted - federal student loans receivable	10,600,048
Capital assets, net of accumulated depreciation	1,272,111,945
Other assets	600,000
Total noncurrent assets	<u>1,379,227,067</u>
Total assets	<u>2,210,202,729</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	15,119,690
Deferred outflows related to net OPEB liability	106,102,189
Deferred outflows related to net pension liability	105,786,360
Total deferred outflows of resources	<u>227,008,239</u>

LIABILITIES

Current liabilities:	
Accounts payable	15,671,969
Retainage payable	401,470
Accrued interest payable	4,128,192
Accrued payroll and related liabilities	22,331,325
Accrued compensated absences - current portion	28,973,468
Capital lease obligations - current portion	316,490
Bonds payable - current portion	28,092,390
Unearned revenues	34,855,303
Deposits	3,007,966
Other liabilities	3,577,997
Funds held for others	15,918,350
Total current liabilities	<u>157,274,920</u>
Noncurrent liabilities:	
Accrued compensated absences	3,219,275
Federal loan liability	11,687,592
Capital lease obligations	927,949
Bonds payable	504,938,515
Net OPEB liability	831,108,649
Net pension liability	848,703,913
Total noncurrent liabilities	<u>2,200,585,893</u>
Total liabilities	<u>2,357,860,813</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net OPEB liability	92,791,691
Deferred inflows related to net pension liability	5,680,367
Total deferred inflows of resources	<u>98,472,058</u>

NET POSITION

Net investment in capital assets	756,612,771
Restricted for:	
Nonexpendable	85,219,993
Expendable	
Scholarships, research, instruction, and other	34,901,067
Loans	2,304,741
Capital projects	87,656,135
Debt service	10,346,058
Unrestricted	(996,162,668)
Total net position	<u>\$ (19,121,903)</u>

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020

OPERATING REVENUES

Student tuition and fees (\$33,392,616 pledged for bonds)	\$ 799,496,520
Less: scholarship discounts and allowances	(291,405,487)
Federal grants and contracts	145,477,605
State grants and contracts	101,896,474
Local grants and contracts	653,309
Nongovernmental grants and contracts	39,180,110
Sales and services of educational and other activities	27,383,906
Sales and services of auxiliary enterprises (\$21,518,240 pledged for bonds)	164,080,668
Less: scholarship allowance	(2,818,945)
Interest collected on student loans	290,257
Other fees (\$6,558,182 pledged for bonds)	13,728,504
Other operating revenues	5,223,336
	<hr/>
Total operating revenues	1,003,186,257

OPERATING EXPENSES

Salaries and wages	549,783,451
Fringe benefits	270,389,108
Services and supplies	304,716,175
Utilities	25,326,382
Scholarships and fellowships	32,313,589
Depreciation expense	68,764,487
	<hr/>
Total operating expenses	1,251,293,192
	<hr/>
Operating loss	(248,106,935)

NONOPERATING REVENUES (EXPENSES)

State appropriations	169,517,167
Federal grants	31,899,864
Gifts	41,444,375
Investment income	10,807,151
Endowment income	14,588,133
Loss on disposal of capital assets	(907,851)
Interest on capital asset related debt	(12,625,580)
	<hr/>
Net nonoperating revenues	254,723,259
	<hr/>
Income before other revenues	6,616,324

State capital appropriations	12,879,177
Capital grants and gifts	8,368,161
Additions to permanent endowments	52,682
Transfers (to)/from other campuses, net	(221,702)
	<hr/>
Change in net position	27,694,642

NET POSITION, BEGINNING OF YEAR

(46,816,545)

NET POSITION, END OF YEAR

\$ (19,121,903)

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2020

OPERATING ACTIVITIES

Student tuition and fees	\$ 508,348,252
Research grants and contracts	290,337,903
Sales and services of educational and other activities	27,607,161
Sales and services of auxiliary enterprises	162,623,938
Student loans disbursed	(451,235)
Student loans collected	2,323,626
Interest collected on student loans	290,257
Inflows from federal direct student loans	243,715,266
Outflows from federal direct student loans	(243,715,266)
Payments to employees for services	(546,013,553)
Payments to employees for benefits	(210,350,490)
Payments to suppliers	(327,101,846)
Payments to students for scholarships and fellowships	(32,313,589)
Other receipts	17,536,121
Inflows from agency funds	54,345,056
Outflows from agency funds	(48,001,677)
Net cash used by operating activities	<u>(100,820,076)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	169,517,167
Federal grants	31,899,864
Gifts	40,966,304
Additions to permanent endowments	52,682
Transfers to other campuses, net	(221,702)
Federal loan liability	(3,148,791)
Net cash provided by noncapital financing activities	<u>239,065,524</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations	12,879,177
Capital grants and gifts	5,051,221
Purchase and construction of capital assets	(54,877,165)
Principal paid on capital asset related debt	(24,909,610)
Interest paid on capital asset related debt	(22,849,370)
Net cash used by capital and related financing activities	<u>(84,705,747)</u>

INVESTING ACTIVITIES

Investment income	10,691,784
Endowment income	15,094,524
Net cash provided by investing activities	<u>25,786,308</u>
Net increase (decrease) in cash and cash equivalents	<u>79,326,009</u>

Cash and cash equivalents, beginning of year

789,475,472

Cash and cash equivalents, end of year

\$ 868,801,481

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 653,391,930
Restricted - cash and cash equivalents, current	126,030,755
Restricted - cash and cash equivalents, noncurrent	89,378,796
	<u>\$ 868,801,481</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2020

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

Operating loss	\$ (248,106,935)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	68,764,487
Accrued benefits related to net pension liability	60,203,742
Student loans cancelled	401,706
Change in current assets and liabilities:	
Accounts receivable, net	9,422,754
Student loans receivable	1,872,391
Inventories	(653,099)
Prepaid items	164,060
Accounts payable	3,042,961
Retainage payable - noncapital	(14,914)
Accrued payroll	895,764
Accrued benefits	(165,125)
Accrued compensated absences	2,843,241
Unearned revenues	(8,721,911)
Deposits	(21,712)
Other liabilities	2,909,132
Funds held for and due from others	6,343,382

Net cash used by operating activities **\$ (100,820,076)**

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 6,151,399</u></u>
Net change in capital grants and gifts receivable and unearned revenues	<u><u>\$ (2,834,459)</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (895,431)</u></u>
Capital assets acquired through capital leases	<u><u>\$ 614,493</u></u>
Transfer of capital assets (to) from other campuses, net	<u><u>\$ (128,235)</u></u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u><u>\$ 600,000</u></u>
Change in value of investments recognized in endowment and investment income	<u><u>\$ (1,106,391)</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Governmental Discretely Presented Component Units
Statements of Net Position
June 30, 2020

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 215,900	\$ 16,406,089	\$ 16,621,989
Restricted cash and cash equivalents	11,923,251	10,445,846	22,369,097
Investments and security deposits	-	10,730,084	10,730,084
Patient and other accounts receivable, net	2,302,514	268,864	2,571,378
Prepaid items and deposits	43,351	-	43,351
Total current assets	<u>14,485,016</u>	<u>37,850,883</u>	<u>52,335,899</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>-</u>	<u>8,967,385</u>	<u>8,967,385</u>
Total assets	<u>14,485,016</u>	<u>46,818,268</u>	<u>61,303,284</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	2,110,098	11,067,682	13,177,780
Accrued compensated balances	-	249,355	249,355
Unearned revenue	12,115,704	-	12,115,704
Current portion of long term debt	<u>-</u>	<u>2,550,000</u>	<u>2,550,000</u>
Total liabilities	<u>14,225,802</u>	<u>13,867,037</u>	<u>28,092,839</u>
NET POSITION			
Net investment in capital assets	-	6,417,685	6,417,685
Restricted for capital projects and debt service	-	373,781	373,781
Unrestricted	259,214	26,159,765	26,418,979
Total net position	<u>\$ 259,214</u>	<u>\$ 32,951,231</u>	<u>\$ 33,210,445</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, 2020

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
REVENUES			
Operating revenues			
Contracts and grants	\$ 165,087,984	\$ 534,615	\$ 165,622,599
Patient charges, net of allowances	-	210,397	210,397
Management fees and recoveries	2,721,309	-	2,721,309
Realized investment income, net	-	-	-
Other operating revenues	233,254	35,092,126	35,325,380
Total operating revenues	<u>168,042,547</u>	<u>35,837,138</u>	<u>203,879,685</u>
EXPENSES			
Operating expenses			
Salaries and administrative expenses	776,809	31,568,017	32,344,826
Services and supplies	728,132	5,824,675	6,552,807
Research and development direct costs	167,108,195	-	167,108,195
Depreciation and amortization	-	633,969	633,969
Total operating expenses	<u>168,613,136</u>	<u>38,026,661</u>	<u>206,639,797</u>
Operating income (loss)	<u>(570,589)</u>	<u>(2,189,523)</u>	<u>(2,760,112)</u>
NONOPERATING REVENUES (EXPENSES)			
Private gifts and donations	-	-	-
Interest and investment income	334,000	330,419	664,419
Unrealized gain (loss) on investment holdings, net	-	54,756	54,756
Net nonoperating revenues (expenses)	<u>334,000</u>	<u>385,175</u>	<u>719,175</u>
Change in net position	(236,589)	(1,804,348)	(2,040,937)
NET POSITION, BEGINNING OF YEAR	495,803	34,755,579	35,251,382
NET POSITION, END OF YEAR	<u><u>\$ 259,214</u></u>	<u><u>\$ 32,951,231</u></u>	<u><u>\$ 33,210,445</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Financial Position
June 30, 2020

	USC Development Foundation		USC Educational Foundation		USC Business Partnership Foundation		Greater USC Alumni Association		Educational Foundation of USC Lancaster		Gamecock Club of USC		Total	
ASSETS														
Cash and cash equivalents	\$	9,300,972	\$	8,695,964	\$	7,271,713	\$	3,188,309	\$	135,649	\$	5,000	\$	28,597,607
Investments		25,615,615		478,177,505		103,890,361		2,179,479		8,754,203		-		618,617,163
Real estate held for investment		44,734,332		-		-		-		-		120,000		44,854,332
Assets held by others		-		4,566,001		-		-		569,435		10,705,138		15,840,574
Accounts receivable, net		421,785		10,528,843		373,247		2,106,993		-		29,421		13,460,289
Contributions receivable, net		1,551,719		43,283,119		1,036,070		-		25,123		-		45,896,031
Prepaid expenses		-		-		55,664		47,875		-		-		103,539
Other assets		3,733,408		251		73,153		41,355		-		3,189,539		7,037,706
Fixed assets, net of depreciation		131,908,096		1,187,661		-		18,768,342		7,039,277		-		158,903,376
Total assets	\$	217,265,927	\$	546,439,344	\$	112,700,208	\$	26,332,353	\$	16,523,687	\$	14,049,098	\$	933,310,617
LIABILITIES														
Accounts payable and accrued expenses	\$	1,714,340	\$	4,197,728	\$	712,593	\$	353,337	\$	-	\$	455,719	\$	7,433,717
Lines of credit		28,789,912		-		-		-		-		-		28,789,912
Deferred revenues		6,562,485		-		-		153,913		-		-		6,716,398
Bonds and notes payable		135,201,359		3,721,256		-		15,000,000		2,814,910		-		156,737,525
Interest rate swap		16,751,327		-		-		-		-		-		16,751,327
Other liabilities		40,333		9,425,135		-		18,056		-		19,919		9,503,443
Total liabilities	189,059,756	17,344,119	712,593	15,525,306	2,814,910	475,638	225,932,322							
NET ASSETS														
Without donor restrictions		10,645,966		87,457,363		53,059,858		9,076,152		5,789,990		5,747,609		171,776,938
With donor restrictions		17,550,553		441,637,862		58,927,757		1,730,895		7,918,787		7,825,851		535,591,705
Total Foundation net assets	28,196,519	529,095,225	111,987,615	10,807,047	13,708,777	13,573,460	707,368,643							
Noncontrolling interest		9,652		-		-		-		-		-		9,652
Total net assets	28,206,171	529,095,225	111,987,615	10,807,047	13,708,777	13,573,460	707,378,295							
Total liabilities and net assets	\$	217,265,927	\$	546,439,344	\$	112,700,208	\$	26,332,353	\$	16,523,687	\$	14,049,098	\$	933,310,617

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2020

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

	USC Development Foundation	USC Educational Foundation	USC Business Partnership Foundation	Greater USC Alumni Association	Educational Foundation of USC Lancaster	Gamecock Club of USC	Total
Revenues, gains and other support							
Contributions	\$ 4,567,240	\$ 27,071,944	\$ 1,581,769	\$ 389,522	\$ 723,550	\$ 9,936,551	\$ 44,270,576
Investment returns (losses)	(646,274)	173,395	1,134,817	93,330	20,015	450,775	1,226,058
Net realized and unrealized gains (losses)	-	(106,348)	-	84,341	-	-	(22,007)
Earned income	15,058,473	-	3,858,707	790,213	-	-	19,707,393
Program service revenue	-	-	-	2,677,570	-	-	2,677,570
Other	1,303,700	537,703	-	169,824	51,676	77,594	2,140,497
Net assets released from restrictions:							
Transfers	-	-	623,634	-	-	-	623,634
Satisfaction of program restrictions	1,621,443	330,019	2,168,907	211,879	227,917	-	4,560,165
Expiration of time restrictions	-	10,723,047	-	-	-	1,605,544	12,328,591
Total revenues, gains and other support	21,904,582	38,729,760	9,367,834	4,416,679	1,023,158	12,070,464	87,512,477
Expenses							
Scholarships and student assistance	-	13,383,564	2,344,287	211,879	195,317	10,685,000	26,820,047
Program services	18,937,720	24,413,059	6,085,878	2,384,079	580,499	1,258,836	53,660,071
Supporting services	532,373	3,569,211	873,966	1,100,018	118,147	22,499	6,216,214
Other expenses	-	-	-	2,188,948	-	-	2,188,948
Total expenses	19,470,093	41,365,834	9,304,131	5,884,924	893,963	11,966,335	88,885,280
Excess revenues over (under) expenses	2,434,489	(2,636,074)	63,703	(1,468,245)	129,195	104,129	(1,372,803)
Interest rate swap fair value adjustment	(9,684,427)	-	-	-	-	-	(9,684,427)
Change in net assets without donor restrictions	\$ (7,249,938)	\$ (2,636,074)	\$ 63,703	\$ (1,468,245)	\$ 129,195	\$ 104,129	\$ (11,057,230)

See Notes to the Financial Statements

(Continued)

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2020

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS

	USC Development Foundation	USC Educational Foundation	USC Business Partnership Foundation	Greater USC Alumni Association	Educational Foundation of USC Lancaster	Gamecock Club of USC	Total
Contributions	\$ 778,075	\$ 1,676,295	\$ 1,154,165	\$ 117,775	\$ 108,789	\$ 1,119,122	\$ 4,954,221
Investment returns (losses)	34,772	8,976,815	1,177,833	9,196	103,870	-	10,302,486
Net realized and unrealized gains (losses)	-	(4,551,774)	-	-	-	107,784	(4,443,990)
Other	2,400	141,934	-	23,940	4,346	-	172,620
Net assets released from restrictions:							
Transfers	-	-	(623,634)	-	-	(1,605,544)	(2,229,178)
Satisfaction of program restrictions	(1,621,443)	(330,019)	(2,168,907)	(211,879)	(227,917)	-	(4,560,165)
Expiration of time restrictions	-	(10,723,047)	-	-	-	-	(10,723,047)
Change in net assets with donor restrictions	(806,196)	(4,809,796)	(460,543)	(60,968)	(10,912)	(378,638)	(6,527,053)
Change in net assets	(8,056,134)	(7,445,870)	(396,840)	(1,529,213)	118,283	(274,509)	(17,584,283)
Net change attributable to noncontrolling interest	2,020	-	-	-	-	-	2,020
NET ASSETS, BEGINNING OF YEAR	36,250,633	536,541,095	112,384,455	12,336,260	13,590,494	13,847,969	724,950,906
NET ASSETS, END OF YEAR	\$ 28,196,519	\$ 529,095,225	\$ 111,987,615	\$ 10,807,047	\$ 13,708,777	\$ 13,573,460	\$ 707,368,643

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, 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. 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 includes 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. Student accounts receivable are recorded net of estimated uncollectible amounts.

Inventories – Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market.

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. Donated capital assets, donated works of art, historical treasures and similar assets are recorded at acquisition value. 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 3 to 60 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 2020 was \$7,256,992.

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 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 and net OPEB liabilities; 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 Campuses' 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 and net OPEB liabilities - decreases in net pension and net OPEB liabilities that were not included in expenses. Also, employer contributions subsequent to the measurement date of the net pension and net OPEB liabilities are reported as deferred outflows of resources.

Deferred Inflows of Resources - The acquisition of net position that is applicable to future reporting periods. The Campuses' deferred inflows of resources consist of increases in the net pension and net OPEB liabilities that were not included in expenses.

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, 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.

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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 Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported with related 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.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campuses had no rebatable arbitrage liability at June 30, 2020.

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, 2020, \$17,943,650 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented cumulative net appreciation of donor-restricted endowments.

New Accounting Pronouncements – In May of 2020, the GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which provides temporary relief to governments and other stakeholders in light of COVID-19 by postponing the effective dates of certain provisions in Statements and Implementation Guides. GASB Statements 84 and 89 discussed below are postponed by one year, while GASB Statement 87 is postponed by 18 months. The following information on each of these standards reflects these new implementation dates.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The objective of this Statement is to improve guidance regarding identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the Campuses in fiscal year 2021. The Campuses are in the process of evaluating the impact of GASB Statement No. 84.

GASB Statement No. 87, *Leases*, was issued in June 2017. This Statement requires recognition of assets and deferred outflows of resources and liabilities and deferred inflows of resources for leases previously classified as operating leases, based on the payment provisions of the contract. This Statement applies to all leases with a term greater than one year. This Statement will be effective for the Campuses in fiscal year 2022. The Campuses are in the process of preparing for the implementation of GASB Statement No. 87.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued in June 2018. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement will be effective for the Campuses in fiscal year 2022. The Campuses are in the process of evaluating the impact of GASB Statement No. 89.

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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)	\$ 653,391,930
Restricted cash and cash equivalents (current) for:	
Debt service	10,390,048
Scholarship, research, instruction, and other	31,940,510
University administered loans	421,068
Capital projects	83,279,129
	<u>126,030,755</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	80,174,030
Federal student loans	2,976,334
Debt service reserves	6,228,432
	<u>89,378,796</u>
Investments (noncurrent)	<u>4,936,278</u>
Total	<u>\$ 873,737,759</u>

Notes

Cash on hand	\$ 581,879
Deposits held by State Treasurer	867,869,016
Other deposits	350,585
Investments held by State Treasurer	3,718,342
Other investments	1,217,937
Total	<u>\$ 873,737,759</u>

UNIVERSITY OF SOUTH CAROLINA
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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, 2020, \$24,326,004 of the \$867,869,016 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

The Campuses have adopted applicable accounting standards for their 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 Campuses utilize 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 Campuses' other investments consist of \$1,144,105 Level 1 assets, \$35,471 Level 2 assets, and \$38,361 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 \$1,217,937 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name.

The net change in unrealized depreciation of investments for the current fiscal year was \$1,106,390.

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Notes to the Financial Statements

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	\$ 10,321,237
Auxiliary enterprises	1,446,767
Federal grants and contracts	23,571,272
State grants and contracts	6,342,928
Local grants and contracts	77,737
Nongovernmental grants and contracts	3,884,905
Accrued interest	3,315,682
	<hr/> 48,960,528
Less allowance for doubtful accounts	<hr/> (810,755)
Accounts receivable, net	<hr/>\$ 48,149,773

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.

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Notes to the Financial Statements

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Net Transfers</u>	<u>June 30, 2020</u>
Capital assets not being depreciated					
Land	\$ 88,458,020	\$ -	\$ -	\$ -	\$ 88,458,020
Construction in progress	40,399,185	43,569,206	61,466,881	-	22,501,510
Works of art and historical treasures	46,456,774	1,683,869	-	-	48,140,643
Total capital assets not being depreciated	<u>175,313,979</u>	<u>45,253,075</u>	<u>61,466,881</u>	<u>-</u>	<u>159,100,173</u>
Other capital assets					
Land improvements	96,373,064	-	-	-	96,373,064
Buildings and improvements	1,620,578,141	64,059,551	-	-	1,684,637,692
Machinery, equipment and other	196,174,726	15,196,592	3,528,383	(143,486)	207,699,449
Vehicles	13,075,104	397,043	447,513	-	13,024,634
Intangibles	90,719,189	1,350,336	115,707	-	91,953,818
Total capital assets at historical cost	<u>2,016,920,224</u>	<u>81,003,522</u>	<u>4,091,603</u>	<u>(143,486)</u>	<u>2,093,688,657</u>
Less accumulated depreciation for					
Land improvements	41,815,069	3,765,396	-	-	45,580,465
Buildings and improvements	687,313,029	40,023,740	-	-	727,336,769
Machinery, equipment and other	138,603,196	12,769,919	2,713,050	(15,251)	148,644,814
Vehicles	10,107,578	949,323	426,456	-	10,630,445
Intangibles	37,230,701	11,256,109	2,418	-	48,484,392
Total accumulated depreciation	<u>915,069,573</u>	<u>68,764,487</u>	<u>3,141,924</u>	<u>(15,251)</u>	<u>980,676,885</u>
Other capital assets, net	<u>1,101,850,651</u>	<u>12,239,035</u>	<u>949,679</u>	<u>(128,235)</u>	<u>1,113,011,772</u>
Capital assets, net	<u>\$ 1,277,164,630</u>	<u>\$ 57,492,110</u>	<u>\$ 62,416,560</u>	<u>\$ (128,235)</u>	<u>\$ 1,272,111,945</u>

UNIVERSITY OF SOUTH CAROLINA
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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
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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 (9.00 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 (10.41 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.

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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. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary. The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization period.

Required **employee** contribution rates for fiscal year 2019-2020 are as follows:

SCRS

Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation

ORP

9.00% of earnable compensation

PORS

Employee Class II	9.75% of earnable compensation
Employee Class III	9.75% of earnable compensation

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Required **employer** contribution rates¹ for fiscal year 2019-2020 are as follows:

SCRS

Employer Class II	15.41% of earnable compensation
Employer Class III	15.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

ORP

Employer Contribution ²	15.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class II	17.84% of earnable compensation
Employer Class III	17.84% 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 15.41% 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.

Net Pension Liability – At June 30, 2020, the Campuses reported liabilities of \$835,392,328 and \$13,311,585 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2019, 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, 2019, the Campuses' proportionate shares of the SCRS and PORS plans were 3.713543% and 0.464475%, respectively.

Pension Expense – For the year ended June 30, 2020, the Campuses recognized pension expense of \$106,518,010 and \$2,199,498 for SCRS and PORS, respectively, for a total pension expense of \$108,717,508.

Non-employer Contributions – Employer's proportionate shares were calculated on the basis of employer contributions remitted to the plan by employers and non-employer contributions appropriated in the State's budget. In an effort to offset a portion of the burden of the increased contribution requirement for employers, the General Assembly funded 1 percent of the SCRS and PORS contribution increases for fiscal year 2019. The State budget appropriated these funds directly to PEBA and a credit was issued for each employer to use when submitting their quarterly remittances to PEBA. For the year ended June 30, 2019 measurement period, PEBA provided non-employer contribution to the Campuses in the amount of \$3,862,408 which is shown as a reduction to net pension liability and other grant revenue in the year ended June 30, 2020.

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, 2020, the Campuses 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	\$ 578,714	\$ 5,498,048
Changes of assumptions	16,964,970	-
Net difference between projected and actual earnings on pension plan investments	7,453,388	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	18,461,445	71,123
Campuses contributions subsequent to the measurement date	59,295,483	-
Total	<u>\$ 102,754,000</u>	<u>\$ 5,569,171</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 295,553	\$ 96,575
Changes of assumptions	569,987	-
Net difference between projected and actual earnings on pension plan investments	182,249	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	756,761	14,621
Campuses contributions subsequent to the measurement date	1,227,810	-
Total	<u>\$ 3,032,360</u>	<u>\$ 111,196</u>

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NOTE 5 - PENSION PLANS, Continued

The \$59,295,483 and \$1,227,810 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, 2020 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2021.

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:	
2021	\$ 33,796,653
2022	(786,801)
2023	1,940,053
2024	2,939,441
	<u>\$ 37,889,346</u>

	PORS
Year ended June 30:	
2021	\$ 979,840
2022	444,901
2023	198,202
2024	70,411
	<u>\$ 1,693,354</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. An experience report on the Systems was most recently issued July 1, 2015.

The June 30, 2019, total pension liability (TPL), net pension liability (NPL), and sensitivity information were determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the actuarial valuation performed as of July 1, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2019, using generally accepted actuarial principles.

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NOTE 5 - PENSION PLANS, Continued

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2019 for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.25%	7.25%
Projected salary increases	3.0% to 12.5% (varies by service) ¹	3.5% to 9.5% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the June 30, 2019 TPL are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

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NOTE 5 - PENSION PLANS, Continued

Net Pension Liability - The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2019, NPL totals 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 Liability
SCRS	\$ 50,073,060,256	\$ 27,238,916,138	\$ 22,834,144,118	54.4%
PORS	7,681,749,768	4,815,808,554	2,865,941,214	62.7%

The TPL 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.

Long Term Expected Rate of Return - The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2019 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.66 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.41 percent real rate of return and a 2.25 percent inflation component.

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NOTE 5 - PENSION PLANS, Continued

Allocation / Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	51.0%		
Global Public Equity ^{1, 2}	35.0%	7.29%	2.55%
Private Equity ^{2, 3}	9.0%	7.67%	0.69%
Equity Options Strategies ¹	7.0%	5.23%	0.37%
Real Assets	12.0%		
Real Estate (Private) ^{2, 3}	8.0%	5.59%	0.45%
Real Estate (REITs) ²	1.0%	8.16%	0.08%
Infrastructure (Private) ^{2, 3}	2.0%	5.03%	0.10%
Infrastructure (Public) ²	1.0%	6.12%	0.06%
Opportunistic	8.0%		
Global Tactical Asset Allocation ¹	7.0%	3.09%	0.22%
Other Opportunistic Strategies	1.0%	3.82%	0.04%
Credit	15.0%		
High Yield Bonds/Bank Loans ^{1, 2}	4.0%	3.14%	0.13%
Emerging Markets Debt	4.0%	3.31%	0.13%
Private Debt ^{2, 3}	7.0%	5.49%	0.38%
Rate Sensitive	14.0%		
Core Fixed Income ¹	13.0%	1.62%	0.21%
Cash and Short Duration (Net)	1.0%	0.31%	0.00%
Total Expected Return ⁴	100.0%		5.41%
Inflation for Actuarial Purposes			2.25%
			7.66%

¹ Portable Alpha Strategies will be capped at 12% of total assets; Hedge funds (including all hedge funds used in portable alpha implementation) capped at 20% of total assets.

² The target weights to Private Equity, Private Debt, Private Infrastructure and Private Real Estate will be equal to their actual weights as of prior month end. Private Equity and Public Equity combine for 44 percent of entire portfolio. Private Debt and High Yield/Bank Loans combine for 11 percent of the entire portfolio. Private Infrastructure and Public Infrastructure combine for 3 percent of the entire portfolio. Private Real Estate and Real Estate (REITs) combine for 9 percent of entire portfolio.

³ RSIC staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

⁴ The expected return for each of the Portable Alpha asset classes includes the expected return attributed to the Overlay Program. For benchmarking purposes there is a 10% weight assigned to Portable Alpha Hedge Funds in the Policy Benchmark.

Discount Rate - The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the 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 TPL.

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Sensitivity Analysis - The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.25 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 (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$1,068,246,674	\$835,392,328	\$664,110,028
PORS	18,040,354	13,311,585	9,437,529

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, 2019 (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, 2019.

Deferred Compensation Plans – Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Campuses 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.

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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 6.05% of annual covered payroll for 2020. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$30,856,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2020. 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, 2020. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

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. The SCLTDITF is considered immaterial and is not included in the Campuses' financial statements as well as the related notes and required supplementary information.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

Net OPEB Liability - At June 30, 2020, the Campuses reported a liability of \$831,108,649 for its proportionate share of the SCRHITF net OPEB liability. The OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Campuses' proportionate share of the OPEB liability was based on the Campuses' long-term share of contributions to the postemployment benefits plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the Campuses' proportionate shares of the SCRHITF plan was 5.496194%.

OPEB Expense – For the year ended June 30, 2020, the Campuses recognized OPEB expense of \$50,640,772 for SCRHITF.

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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Post-Employment Benefits Other Than Pensions (OPEB) – At June 30, 2020, the Campuses reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

South Carolina Retiree Health Insurance Trust Fund

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,725,117	\$ 26,977,459
Changes of assumptions	54,650,248	51,394,264
Net difference between projected and actual earnings on OPEB plan investments	2,146,296	1,185,980
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	10,852,280	13,233,988
Campuses contributions subsequent to the measurement date	28,728,248	-
Total	<u>\$ 106,102,189</u>	<u>\$ 92,791,691</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to retiree health benefits will be recognized in retiree health benefit expense as follows for the SCRHITF plan:

Year ended June 30:	
2021	\$ (5,180,321)
2022	(5,180,321)
2023	(5,507,703)
2024	(6,026,482)
2025	2,974,252
Thereafter	3,502,825
	<u>\$ (15,417,750)</u>

Actuarial Assumptions and Methods - Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

The following table provides a summary of the actuarial assumptions and methods used in the June 30, 2018 actuarial valuation for SCRHITF:

Actuarial Methods and Assumptions:

Actuarial cost method	Entry age normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	3.13% as of June 30, 2019
Demographic assumptions	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015
Mortality assumptions	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Healthcare trend rate	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging factors	Based on plan specific experience
Participation assumptions	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes	The discount rate changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019. Minor updates were made to the healthcare trend rate assumption.

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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Discount Rate - The Single Discount Rate of 3.13% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long Term Expected Rate of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	0.60%	0.48%
Cash	20.00%	0.10%	0.02%
Total	100.00%		0.50%
Expected Inflation			2.25%
Total Return			2.75%
Investment Return Assumption			2.75%

For the SCRHITF, the annual money-weighted rate of return on the plan investment was 6.77%.

Sensitivity Analysis - The following table presents the Campuses' proportionate share of the SCRHITF net other postemployment benefits (OPEB) liability calculated using the discount rate of 3.13 percent, as well as what the Campuses' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.13 percent) or 1 percentage point higher (4.13 percent) than the current rate:

Sensitivity of the SCRHITF Net OPEB Liability to Changes in the Discount Rate

1% Decrease 2.13%	Current Single Discount Rate Assumption 3.13%	1% Increase 4.13%
\$985,269,099	\$831,108,649	\$707,388,451

Sensitivity of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$678,273,435	\$831,108,649	\$1,030,145,207

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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 Campuses had outstanding commitments of \$76,209,698 for capital and \$53,024,572 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

2021	\$ 11,400,212
2022	11,057,049
2023	10,016,944
2024	9,645,405
2025	2,664,187
2026-2030	11,421,596
2031-2035	8,251,165
2036-2039	156,580
Total minimum lease payments	<u>\$ 64,613,138</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 2020-2039. 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 \$11,035,269 for fiscal year 2020. Of this amount, \$216,887 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$231,842 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, 2020, the remaining unamortized prepaid balance related to the parking lease agreement was \$1,700,000 with \$100,000 reflected as a current asset.

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NOTE 8 - LEASE OBLIGATIONS, Continued

Capital Leases - held by the Campuses as of June 30, 2020:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Equipment	\$ 1,715,837	\$ 514,357	\$ 1,201,480

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

2021	\$ 392,566
2022	389,365
2023	356,552
2024	219,679
2025	59,674
Total minimum lease payments	1,417,836
Less amount representing interest	(173,397)
Present value of minimum lease payments by year	<u>\$ 1,244,439</u>

Capital lease obligations consist of:

Agreements with Presidio for copiers payable in monthly installments ranging from \$13 to \$1,472 with fixed interest rates ranging from 5.76% to 7.52%. The agreements expire May 2025.	\$ 1,165,871
Agreement with Wells Fargo for a Hyundai Forklift, payable in monthly installments of \$495 with a fixed interest rate of 3.54%. The agreement expires December 2023.	20,384
Agreement with GE Healthcare for Thermal Image Printer, payable in monthly installments of \$1,150. The agreement expires November 2024.	58,184
Present value of minimum lease payments by lease	<u>\$ 1,244,439</u>

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NOTE 9 - BONDS PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2020 Balance	Debt Retired in Fiscal Year 2020
State Institution Bonds					
Series 2011A Refunding	\$ 18,525,000	3.5% to 5%	03/01/22	\$ 4,260,000	\$ 2,010,000
Series 2011E	20,420,000	4.125% to 5%	03/01/31	13,285,000	900,000
Series 2012A Refunding	19,986,000	2.5% to 5%	04/01/24	4,785,000	1,286,000
Series 2014A	11,740,000	3% to 5%	04/01/34	9,160,000	470,000
Series 2015A	56,725,000	2% to 5%	04/01/35	46,475,000	2,180,000
Series 2015B Refunding	21,250,000	5%	04/01/26	13,910,000	1,930,000
Series 2017B	39,450,000	2.625% to 5%	04/01/37	35,385,000	1,350,000
Total State Institution Bonds				127,260,000	10,126,000
Revenue Bonds					
Series 2010A	28,510,000	4%	06/01/40	-	695,000
Series 2010A Athletic	65,855,000	4% to 5%	05/01/40	8,930,000	1,540,000
Series 2010B Refunding Athletic	12,840,000	4% to 5%	05/01/27	-	1,980,000
Series 2012	61,945,000	3.5% to 5%	05/01/35	51,480,000	2,275,000
Series 2012 Refunding	26,025,000	4% to 5%	05/01/34	18,830,000	1,170,000
Series 2012A Athletic	13,580,000	2.5% to 4%	05/01/42	11,195,000	335,000
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	23,280,000	555,000
Series 2015A Athletic	38,270,000	3% to 5%	05/01/45	34,855,000	755,000
Series 2015	40,260,000	3.5% to 5%	05/01/35	29,520,000	2,645,000
Series 2016 Refunding	35,300,000	4% to 5%	05/01/39	33,125,000	1,110,000
Series 2016A Refunding Athletic	22,400,000	4% to 5%	05/01/38	20,975,000	730,000
Series 2017A Athletic	40,325,000	4% to 5%	05/01/47	38,250,000	715,000
Series 2017B Refunding Athletic	46,990,000	5%	05/01/40	46,990,000	-
Series 2017A Refunding Housing	20,840,000	5%	05/01/40	20,840,000	-
Total Revenue Bonds				344,620,000	14,505,000
Subtotal bonds payable				471,880,000	24,631,000
Plus unamortized bond premiums				61,305,705	3,881,475
Less unamortized bond discounts				(154,800)	(12,900)
Total Bonds Payable				\$ 533,030,905	\$ 28,499,575

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 for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2020 was \$31,219,507 for state institution bonds.

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 2020 were \$17,486,975 from sales and services of auxiliary enterprises.

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NOTE 9 - BONDS PAYABLE, Continued

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 2020 consisted of \$2,173,109 in special student fees, \$6,558,182 in special admission fees and \$4,031,265 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.

In the fall of 2010, the Series 2010B Athletic Facility Revenue Refunding Bonds were issued. As a component of that transaction, the University elected to create a Debt Service Reserve associated with the bonds. During the spring of 2020, as a part of our ongoing debt portfolio review process, the Series 2010B bonds were evaluated. Since the bonds were callable on May 1st, and the existing Debt Service Reserve was sufficient to retire the entire balance of the outstanding bonds, the University exercised its call option and retired the entire outstanding balance of \$1,980,000 on May 1, 2020.

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

	Principal	Interest	Total
State Institution Bonds			
2021	\$ 10,510,000	\$ 5,370,635	\$ 15,880,635
2022	11,033,000	4,845,135	15,878,135
2023	9,322,000	4,293,485	13,615,485
2024	8,730,000	3,857,525	12,587,525
2025	8,685,000	3,433,275	12,118,275
2026-2030	38,210,000	11,294,738	49,504,738
2031-2035	35,375,000	4,125,719	39,500,719
2036-2037	5,395,000	243,900	5,638,900
Total	\$ 127,260,000	\$ 37,464,412	\$ 164,724,412
	Principal	Interest	Total
Revenue Bonds			
2021	\$ 13,475,000	\$ 16,287,031	\$ 29,762,031
2022	14,145,000	15,624,631	29,769,631
2023	14,835,000	14,929,031	29,764,031
2024	15,215,000	14,196,656	29,411,656
2025	15,950,000	13,444,569	29,394,569
2026-2030	84,115,000	55,393,044	139,508,044
2031-2035	91,915,000	34,380,031	126,295,031
2036-2040	63,550,000	15,092,625	78,642,625
2041-2045	26,575,000	4,065,025	30,640,025
2046-2047	4,845,000	292,600	5,137,600
Total	\$ 344,620,000	\$ 183,705,243	\$ 528,325,243

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NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 137,386,000	\$ -	\$ 10,126,000	\$ 127,260,000	\$ 10,510,000	\$ 116,750,000
Revenue Bonds	359,125,000	-	14,505,000	344,620,000	13,475,000	331,145,000
Subtotal Bonds Payable	496,511,000	-	24,631,000	471,880,000	23,985,000	447,895,000
Unamortized Bond Premiums	65,187,180	-	3,881,475	61,305,705	4,120,290	57,185,415
Unamortized Bond Discounts	(167,700)	-	(12,900)	(154,800)	(12,900)	(141,900)
Total Bonds Payable	\$ 561,530,480	\$ -	\$ 28,499,575	\$ 533,030,905	\$ 28,092,390	\$ 504,938,515
Capital Lease Obligations	\$ 908,556	\$ 614,493	\$ 278,610	\$ 1,244,439	\$ 316,490	\$ 927,949
Accrued Compensated Absences	\$ 29,349,502	\$ 29,851,103	\$ 27,007,862	\$ 32,192,743	\$ 28,973,468	\$ 3,219,275

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

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the 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; the Educational Foundation of the University of South Carolina – Lancaster; and the Gamecock Club of the University of South Carolina 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 nongovernmental 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 flow through 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.

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NOTE 11 - COMPONENT UNITS, Continued

The University of South Carolina School of Medicine Educational Trust (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, Prisma Health. Formal Management Service Agreements and other operating agreements and documents were finalized and operational during fiscal year 2017. Prisma Health provides 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.

Nongovernmental 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. As of June 30, 2020 the Foundation held \$19,887,385 in endowment funds for the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 1027 Barnwell St. Columbia, SC 29208, Attention: Jason Caskey.

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. As of June 30, 2020 the Foundation held \$370,311,954 in endowment funds for the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 1027 Barnwell St. Columbia, SC 29208, Attention: Jason Caskey.

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. As of June 30, 2020 the Foundation held \$99,003,221 in endowment funds for the Campuses. Complete financial statements for the Foundation can be obtained at University of South Carolina Business Partnership Foundation 1014 Green Street, Columbia, SC 29208, Attention: Jean Duke.

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: Wes Hickman.

UNIVERSITY OF SOUTH CAROLINA
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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 fundraising 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.

The Gamecock Club of the University of South Carolina (the Gamecock Club) was established exclusively to support University Athletics at the Columbia Campus. Its objectives include the establishment and implementation of long-range fundraising programs to support athletic scholarships. The University receives scholarship funds from the Gamecock Club for student athletes. As of June 30, 2020 the Gamecock Club held \$3,625,080 in endowment funds for the Campuses. Complete financial statements for the Gamecock Club can be obtained at 1304 Heyward St., Columbia, SC 29208, Attention: Jeff Tallant.

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	\$ 3,871,935
USC School of Medicine Educational Trust	2,005,654
USC Development Foundation	325,596
USC Educational Foundation	23,053,357
USC Business Partnership Foundation	5,103,249
Greater USC Alumni Association	786,046
Educational Foundation of USC Lancaster	22,800
Gamecock Club	10,685,000
Total	<u>\$ 45,853,637</u>

Funds Paid to Component Units

USC Development Foundation	1,222,249
USC Educational Foundation	975,027
USC Business Partnership Foundation	10,563
Greater USC Alumni Association	2,027,582
Educational Foundation of USC Lancaster	11,774
Total	<u>\$ 4,247,195</u>

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 \$754,714 due from the South Carolina Research Foundation at June 30, 2020.

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NOTE 12 - RELATED PARTIES

There are several separately chartered legal entities which do not meet the criteria established by GASB Statement No. 61 – *Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, 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, 2020 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, 2020, the Commission received an annual appropriation of \$2,109,293 and \$2,287 in interest income. The Commission disbursed \$1,600,000 to USC Lancaster for operations and maintenance of the physical plant, commencement exercises, campus master planning and support. An additional \$5,792 was disbursed to vendors for insurance, professional services, and commencement expenses. There was a \$480,000 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, 2020, the Commission had a net position of \$1,792,749.

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, 2020, the Commission made payments to USC Sumter totaling \$591,309 for the operation and maintenance of the campus. At June 30, 2020, the Commission had a net position of \$648,663.

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals
Notes to the Financial Statements

NOTE 12 - RELATED PARTIES, Continued

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 \$211,563 to accomplish these objectives. During fiscal year 2020 the Union Laurens Commission also received an additional \$45,317 from the Union County Healthcare Foundation to support nursing program opportunities at the University of South Carolina Union (USC Union). During the year ended June 30, 2020, the Commission made grants to USC Union totaling \$273,507 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, 2020, the Commission had a net position of \$2,178,187.

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 \$154,073 for the fiscal year ended June 30, 2020. 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, 2020, the Commission had a net position of \$241,275.

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) 3100-2018 "Risk Management - 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 Fiscal Accountability Authority 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 Fiscal Accountability Authority, 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 insurance policies maintained by the Campuses include: Building and Personal Property, Inland Marine, Ocean Marine, Data Processing Equipment, Business Interruption, Builders' Risk, Automobile, Aircraft, Directors and Officers Liability, General Tort Liability, Cyber Liability, Medical Professional Liability, Employee Crime, and 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	\$ 255,990,182	\$ 91,587,338	\$ 48,970,262	\$ 77,678	\$ 1,367,974	\$ -	\$ 397,993,434
Research	61,842,430	24,626,189	48,353,146	9,335	717,428	-	135,548,528
Public service	33,842,602	11,988,649	22,145,136	48,206	427,411	-	68,452,004
Academic support	43,735,476	15,678,402	37,909,907	7,436	12,021	-	97,343,242
Student services	29,043,284	9,995,771	18,986,737	646,524	317,890	-	58,990,206
Institutional support	45,670,526	17,251,142	14,596,944	4,578	7,643	-	77,530,833
Operation and plant maintenance	24,778,798	10,089,526	39,592,074	16,140,615	373	-	90,601,386
Auxiliary enterprises	54,844,481	18,121,542	74,122,314	8,392,010	1,884,041	-	157,364,388
Scholarships and fellowships	35,672	1,353,688	39,655	-	27,578,808	-	29,007,823
Depreciation	-	-	-	-	-	68,764,487	68,764,487
Pension and OPEB expense	-	69,696,861	-	-	-	-	69,696,861
Total operating expenses	\$ 549,783,451	\$ 270,389,108	\$ 304,716,175	\$ 25,326,382	\$ 32,313,589	\$ 68,764,487	\$ 1,251,293,192

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	\$ 85,219,993	\$ -	\$ 85,219,993
Unrestricted	-	42,922,266	42,922,266
Total	\$ 85,219,993	\$ 42,922,266	\$ 128,142,259
Endowment Funds Held by Component Units	\$ 492,827,640	\$ -	\$ 492,827,640

UNIVERSITY OF SOUTH CAROLINA
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NOTE 16 – SEIMENS PRODUCT LIFESTYLE MANAGEMENT SOFTWARE

On July 7, 2017, the University of South Carolina was notified by Siemens Product Lifecycle Management Software that it was the recipient of an academic grant for site licenses valued at \$628,883,890. This will be considered a non-capitalized gift-in-kind. \$116,666,288 was awarded in the fiscal year ended June 30, 2020. Future awards are as follows:

2021	\$	116,666,288
2022		116,666,288
		<u>\$ 233,332,576</u>

NOTE 17 – COVID-19 AND RELATED SUBSEQUENT EVENTS

COVID-19 has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity, may increasingly have the potential to negatively impact the University and student costs, and may affect the demand for University products and services. These conditions could adversely affect the University's financial condition. Further, COVID-19 may result in health or other government authorities requiring the closure of the University which could significantly disrupt the University's operations for both academics and athletics. The extent of the adverse impact of COVID-19 on the University cannot be predicted at this time.

In March 2020, the University closed its campuses, including housing and dining facilities and cancelled all athletic events and competitions due to COVID-19 as the result of Governor McMaster's Executive Order. As a result of the closure, auxiliary services revenue decreased \$12.3 million due to housing, dining and parking revenue refunds issued to students for the Spring semester. In addition, overall earnings on investments and endowment balances were impacted by the market conditions related to COVID-19 near fiscal year end. The University established a Future Planning Group (FPG) comprised of faculty and staff representing all facets of the University operations from public health, admissions and enrollment, academics and research, finance, and athletics. The FPG was charged with examining the potential impacts of COVID-19 on the University and making policy recommendations concerning the safe return of students and employees to campus, mitigating any ongoing public health and safety risks, and analyzing the financial implications for fall 2020 and beyond.

During fiscal year 2020, the Campuses received notification of federal funds available for mitigation and response efforts for COVID-19 which included federal CARES Act and FEMA Disaster Relief. The Campuses were certified to receive \$11,966,475 in Part A funds under the federal CARES Act and expended \$8,510,690 on student emergency grants as required under the Act. In addition, the Campuses were certified to receive \$11,966,475 in Part B funds under the federal CARES Act to cover institutional costs or foregone revenue related to COVID-19.

Subsequent to year end, the Campuses applied for FEMA Disaster Relief funds in the amount of \$1,473,984. In addition, the Campuses received notification of additional funding available under the federal CARES Act through the State of South Carolina's accelerateSC program and submitted a reimbursement request in the amount of \$12,337,737.

As of the report date, the Campuses have begun the Fall 2020 semester with on-line and in-person instruction and the return of athletic competition with limited fans. At the time of issuance, enrollment is expected to have increased by 1 percent over the prior year.

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals
Notes to the Financial Statements

NOTE 17 – COVID-19 AND RELATED SUBSEQUENT EVENTS, Continued

In addition, COVID-19 is expected to have a severe financial impact on the University's Athletics Department. Limitations on sports competition were imposed on University Athletics by both the Southeastern Conference and the NCAA. Capacity limitations on attendance put in place by an Executive Order from Governor McMaster will adversely affect ticket sales, donations, and other auxiliary revenues normally generated by Athletics. Projected revenue losses from reduced ticket sales and concessions, television and other contracts could exceed \$58.0 million. Athletics has taken a number of internal measures to help offset the anticipated financial shortfalls and will continue to assess the long-term sustainability of its operations as other expenditure reductions are considered. Subsequent to year end, Athletics has reduced budgets by 15 percent, furloughed senior level employees, implemented hiring freezes, and cut pay to several top coaches and the Athletic Director. Ticket refunds as of the report date exceed \$2.8 million.

Because the duration and continued potential negative fiscal impacts related to COVID-19 are unknown, the University will continue monitoring these impacts on auxiliary services and the corresponding bond indebtedness and debt service payments. The University's budget as approved on June 19, 2020 for fiscal year 2021 provides for full payment of principal and interest payments for Higher Education Revenue Bonds and Athletic Facilities Revenue Bonds from the revenues generated by the University's auxiliary facilities (which include or will include housing, parking, and certain bookstore and other auxiliary activities) and athletic facilities, respectively. The University has also pledged certain revenues and moneys from other sources for the payment of Higher Education Revenue Bonds under the Higher Education Revenue Bond resolution, but presently anticipates that revenues generated by these facilities will be sufficient to pay debt service on Higher Education Revenue Bonds. The University has also pledged certain revenues and moneys from other sources for the payment of Athletic Facilities Revenue Bonds under the Athletic Facilities Revenue Bond resolution, but presently anticipates that revenues generated by athletic facilities together with such other sources will be sufficient to pay debt service on Athletic Facilities Revenue Bonds.

The information in this subsequent event section contains forecasts, projections and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this section the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "budgets" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of these financial statements. The University disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the University's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Schedule of the Campuses' Proportionate Share of the Net Pension Liability
As of June 30

South Carolina Retirement System (SCRS)					
For the Year	Campuses' Proportion of the Net Pension Liability	Campuses' Proportionate Share of the Net Pension Liability	Campuses' Covered Payroll During the Measurement Period	Campuses' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	3.713543%	\$ 835,392,328	\$ 243,644,523	342.87%	54.40%
2019	3.651800%	815,743,794	243,306,047	335.27%	54.10%
2018	3.578113%	794,580,604	239,685,660	331.51%	53.30%
2017	3.439230%	734,613,625	229,659,380	319.87%	52.91%
2016	3.446174%	653,583,503	227,051,819	287.86%	56.99%
2015	3.452560%	594,431,289	213,526,173	278.39%	59.90%
2014	3.452560%	619,266,649	212,408,093	291.55%	56.39%

Police Officers Retirement System (PORS)					
For the Year	Campuses' Proportion of the Net Pension Liability	Campuses' Proportionate Share of the Net Pension Liability	Campuses' Covered Payroll During the Measurement Period	Campuses' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.464475%	\$ 13,311,585	\$ 6,786,252	196.16%	62.70%
2019	0.446169%	12,642,540	6,264,601	201.81%	61.70%
2018	0.476830%	13,062,942	5,565,057	234.73%	60.90%
2017	0.391736%	9,936,036	5,037,053	197.26%	60.44%
2016	0.407142%	8,873,651	5,112,939	173.55%	64.57%
2015	0.411620%	7,886,324	4,964,416	158.86%	67.50%
2014	0.411620%	8,532,719	4,510,969	189.15%	62.98%

This schedule is intended to show ten years of comparative data. Additional years will be added to the schedule as they become available.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Schedule of the Campuses' Contributions
Related to the Pension Liability
For the Years Ended June 30

South Carolina Retirement System (SCRS)						
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campuses' Covered Payroll	Contributions as a Portion of Covered Payroll	
2020	\$ 59,295,483	\$ 59,295,483	\$ -	\$ 249,570,951	23.76%	
2019	52,935,244	52,935,244	-	243,644,523	21.73%	
2018	49,035,569	49,035,569	-	243,306,047	20.15%	
2017	41,678,599	41,678,599	-	239,685,660	17.39%	
2016	37,176,186	37,176,186	-	229,659,380	16.19%	
2015	35,495,129	35,495,129	-	227,051,819	15.63%	
2014	33,225,459	33,225,459	-	213,526,173	15.56%	

Police Officers Retirement System (PORS)						
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campuses' Covered Payroll	Contributions as a Portion of Covered Payroll	
2020	\$ 1,227,810	\$ 1,227,810	\$ -	\$ 6,435,620	19.08%	
2019	1,197,533	1,197,533	-	6,786,252	17.65%	
2018	1,007,598	1,007,598	-	6,264,601	16.08%	
2017	802,588	802,588	-	5,565,057	14.42%	
2016	686,322	686,322	-	5,037,053	13.63%	
2015	681,738	681,738	-	5,112,939	13.33%	
2014	635,671	635,671	-	4,964,416	12.80%	

This schedule is intended to show ten years of comparative data. Additional years will be added to the schedule as they become available.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Schedule of the Campuses' Proportionate Share of the Net OPEB Liability
As of June 30

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)					
For the Year	Campuses' Proportion of the Net OPEB Liability	Campuses' Proportionate Share of the Net OPEB Liability	Campuses' Covered Payroll During the Measurement Period	Campuses' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	5.496194%	\$ 831,108,649	\$ 479,530,922	173.32%	8.44%
2019	5.600284%	793,593,609	475,763,663	166.80%	7.91%
2018	5.499942%	744,958,167	463,825,510	160.61%	7.60%
2017	5.499942%	795,766,330	439,097,000	181.23%	7.60%

This schedule is intended to show ten years of comparative data. Additional years will be added to the schedule as they become available.
The SCLTDITF is considered immaterial and is not included in the Campuses' financial statements.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Schedule of the Campuses' Contributions
Related to the OPEB Liability
For the Years Ended June 30

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)						
For the Year	Contractually Required Contribution	Contributions Made to Plan	Contribution Deficiency (Excess)	Campuses' Covered Payroll	Contributions as a Percentage of Covered Payroll	
2020	\$ 28,728,248	\$ 28,728,248	\$ -	\$ 493,693,596	5.82%	
2019	28,927,286	28,927,286	-	479,530,922	6.03%	
2018	25,553,981	25,553,981	-	475,763,663	5.37%	
2017	24,721,900	24,721,900	-	463,825,510	5.33%	

This schedule is intended to show ten years of comparative data. Additional years will be added to the schedule as they become available. The SCLTDITF is considered immaterial and is not included in the Campuses' financial statements.

**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, 2020, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated September 30, 2020. 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 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, 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 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; the Educational Foundation of the University of South Carolina – Lancaster, and the Gamecock Club of the University of South Carolina, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

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

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

Columbia, South Carolina
September 30, 2020