

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2022

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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 (Campuses), the Campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

In our opinion, based on our report and the reports 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, 2022, 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.

We did not audit the financial statements of the South Carolina Research Foundation; the School of Medicine Educational Trust; the USC Development Foundation; the USC Educational Foundation; the USC Business Partnership Foundation; the Greater USC Alumni Association; the Educational Foundation of USC Lancaster; and the Gamecock Club of USC, which represent 100 percent 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 aggregate discretely presented component units are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Campuses and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the School of Medicine Educational Trust; the USC Development Foundation; the USC Educational Foundation; the USC Business Partnership Foundation; the Greater USC Alumni Association; the Educational Foundation of USC Lancaster; and the Gamecock Club of USC were not audited in accordance with *Government Auditing Standards*.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Campuses are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of the Campuses. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Campuses' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, 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 solely 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 the effectiveness of the Campuses' 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 Campuses' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Charlotte, North Carolina
November 18, 2022

UNIVERSITY OF SOUTH CAROLINA - Columbia and Reg
Statement of Net Position
As of June 30, 2022

ASSETS

Current assets:	
Cash and cash equivalents	\$ 850,514,425
Restricted - cash and cash equivalents	309,147,569
Accounts receivable, net	117,548,698
Inventories	2,882,495
Prepaid items	1,209,170
Funds due from others	1,488,354
Total current assets	<u>1,282,790,711</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	84,370,293
Investments	5,245,233
Accounts receivable	32,477,070
Prepaid items	1,400,000
Restricted - federal student loans receivable	7,150,406
Capital assets, net of accumulated depreciation	1,340,408,592
Other assets	1,080,946
Total noncurrent assets	<u>1,472,132,540</u>
Total assets	<u>2,754,923,251</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on debt refunding	2,038,584
Deferred outflows related to net OPEB liability	283,301,590
Deferred outflows related to net pension liability	126,350,547
Total deferred outflows of resources	<u>411,690,721</u>

LIABILITIES

Current liabilities:	
Accounts payable	19,879,653
Retainage payable	1,459,733
Accrued interest payable	4,934,843
Accrued payroll and related liabilities	27,200,461
Accrued compensated absences - current portion	30,832,390
Lease obligations - current portion	9,493,153
Bonds payable - current portion	27,752,913
Unearned revenues	42,409,256
Deposits	1,471,978
Other liabilities	1,001,618
Funds held for others	10,184,248
Total current liabilities	<u>176,620,246</u>
Noncurrent liabilities:	
Accrued compensated absences	2,320,718
Federal loan liability	8,061,043
Lease obligations	22,352,095
Bonds payable	683,204,839
Net OPEB liability	1,097,765,872
Net pension liability	779,511,451
Total noncurrent liabilities	<u>2,593,216,018</u>
Total liabilities	<u>2,769,836,264</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to leases	32,203,277
Deferred inflows related to net OPEB liability	90,687,115
Deferred inflows related to net pension liability	133,071,413
Total deferred inflows of resources	<u>255,961,805</u>

NET POSITION

Net investment in capital assets	732,787,176
Restricted for:	
Nonexpendable	86,803,298
Expendable	
Scholarships, research, instruction, and other	61,420,604
Loans	1,194,916
Capital projects	173,824,988
Debt service	7,399,729
Unrestricted	<u>(922,614,808)</u>
Total net position	<u><u>\$ 140,815,903</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Reg
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2022

OPERATING REVENUES

Student tuition and fees (\$33,002,866 pledged for bonds)	\$ 786,202,963
Less: scholarship allowance	(287,676,791)
Federal grants and contracts	139,270,175
State grants and contracts	127,267,999
Local grants and contracts	400,018
Nongovernmental grants and contracts	68,744,910
Sales and services of educational and other activities	27,563,007
Sales and services of auxiliary enterprises (\$24,474,189 pledged for bonds)	185,826,697
Less: scholarship allowance	(4,349,033)
Interest collected on student loans	184,987
Other fees (\$5,620,565 pledged for bonds)	13,231,779
Other operating revenues	6,067,372
Total operating revenues	<u>1,062,734,083</u>

OPERATING EXPENSES

Salaries and wages	575,154,583
Fringe benefits	254,882,650
Services and supplies	348,332,895
Utilities	30,664,327
Scholarships and fellowships	67,916,596
Depreciation expense	76,213,360
Total operating expenses	<u>1,353,164,411</u>
Operating loss	<u>(290,430,328)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	184,889,106
Local appropriations	2,085,123
Federal grants	96,467,104
Gifts	47,815,311
Investment income (loss)	(14,804,168)
Endowment income (loss)	(17,518,323)
Loss on disposal of capital assets	(421,252)
Interest on capital asset related debt	(23,911,659)
Net nonoperating revenues	<u>274,601,242</u>
Income (loss) before other revenues	<u>(15,829,086)</u>

State capital appropriations	101,120,589
Capital grants and gifts	6,747,989
Additions to permanent endowments	424,000
Transfers (to)/from other campuses, net	(823,209)
Change in net position	<u>91,640,283</u>

NET POSITION, BEGINNING OF YEAR

49,175,620

NET POSITION, END OF YEAR

\$ 140,815,903

University of South Carolina - Columbia and Regionals
Statement of Cash Flows
For the year ended June 20, 2022

OPERATING ACTIVITIES

Student tuition and fees	\$ 497,888,471
Grants and contracts	330,885,119
Sales and services of educational and other activities	26,715,537
Sales and services of auxiliary enterprises	183,192,494
Lessor agreements issued	810,859
Student loans disbursed	(464,993)
Student loans collected	1,653,250
Interest collected on student loans	184,987
Inflows from federal direct student loans	235,571,156
Outflows from federal direct student loans	(235,571,156)
Payments to employees for services	(572,868,673)
Payments to employees for benefits	(211,418,731)
Payments to suppliers	(371,077,144)
Payments to students for scholarships and fellowships	(67,916,596)
Other receipts	19,234,105
Inflows from funds due to and held for others	26,262,251
Outflows from funds due to and held for others	(33,150,878)
Net cash used by operating activities	<u>(170,069,942)</u>

NONCAPITAL FINANCING ACTIVITIES

State and local appropriations	186,974,229
Federal grants	99,326,653
Gifts	47,681,460
Additions to permanent endowments	424,000
Transfers to other campuses, net	(823,209)
Federal loan liability	(1,942,142)
Net cash provided by noncapital financing activities	<u>331,640,991</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	108,682,188
State capital appropriations	49,038,686
Capital grants and gifts	2,694,579
Purchase and construction of capital assets	(119,083,948)
Principal paid on capital asset related debt	(123,178,559)
Interest paid on capital asset related debt	(26,871,052)
Net cash used by capital and related financing activities	<u>(108,718,106)</u>

INVESTING ACTIVITIES

Investment income (loss)	(16,490,734)
Endowment income (loss)	(16,729,211)
Net cash used by investing activities	<u>(33,219,945)</u>
Net increase (decrease) in cash and cash equivalents	<u>19,632,998</u>

Cash and cash equivalents, beginning of year

1,224,399,289

Cash and cash equivalents, end of year

\$ 1,244,032,287

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 850,514,425
Restricted - cash and cash equivalents, current	309,147,569
Restricted - cash and cash equivalents, noncurrent	84,370,293
	<u>\$ 1,244,032,287</u>

University of South Carolina - Columbia and Regionals
Statement of Cash Flows
For the year ended June 20, 2022

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

Operating loss	\$ (290,430,328)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	76,213,360
Accrued benefits related to net pension liability	75,025,021
Student loans cancelled	461,129
Change in assets and liabilities:	
Accounts receivable, net	(39,281,641)
Student loans receivable	1,188,257
Inventories	(256,936)
Prepaid items	54,815
Accounts payable	7,653,370
Retainage payable - noncapital	7,699
Accrued payroll	1,263,665
Accrued benefits	642,176
Accrued compensated absences	794,736
Unearned revenues	3,020,621
Deposits	224,704
Other liabilities	238,037
Funds held for and due from others	(6,888,627)
Net cash used by operating activities	<u><u>\$ (170,069,942)</u></u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 3,148,777</u></u>
Net change in capital grants and gifts receivable and unearned revenues	<u><u>\$ 904,634</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (421,252)</u></u>
Capital assets acquired through leases	<u><u>\$ 3,820,974</u></u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u><u>\$ 180,946</u></u>
Change in value of investments recognized in endowment and investment income	<u><u>\$ (970,059)</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Governmental Discretely Presented Component Units
Statements of Net Position
June 30, 2022

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 15,330,821	\$ 15,330,821
Restricted cash and cash equivalents	1,094,078	17,775,692	18,869,770
Investments and security deposits	-	11,657,588	11,657,588
Patient and other accounts receivable, net	1,016,886	1,049,286	2,066,172
Prepaid items and deposits	1,324,204	-	1,324,204
Total current assets	<u>3,435,168</u>	<u>45,813,387</u>	<u>49,248,555</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	-	12,307,399	12,307,399
Lease receivable, long term portion	-	4,309,720	4,309,720
Total assets	<u>3,435,168</u>	<u>62,430,506</u>	<u>65,865,674</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	1,273,215	22,248,919	23,522,134
Accrued compensated balances	-	215,328	215,328
Unearned revenue	1,882,350	-	1,882,350
Bonds and leases payable	-	1,795,232	1,795,232
Total liabilities	<u>3,155,565</u>	<u>24,259,479</u>	<u>27,415,044</u>
Noncurrent liabilities			
Noncurrent portion of long term debt	-	1,119,556	1,119,556
Total noncurrent liabilities	<u>-</u>	<u>1,119,556</u>	<u>1,119,556</u>
Total liabilities	<u>3,155,565</u>	<u>25,379,035</u>	<u>28,534,600</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred lease inflows	-	4,847,254	4,847,254
NET POSITION			
Net investment in capital assets	-	10,607,399	10,607,399
Restricted for capital projects and debt service	-	373,896	373,896
Unrestricted	279,603	21,222,922	21,502,525
Total net position	<u>\$ 279,603</u>	<u>\$ 32,204,217</u>	<u>\$ 32,483,820</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, 2022

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
REVENUES			
Operating revenues			
Contracts and grants	\$ 5,278,263	\$ 265,453	\$ 5,543,716
Patient charges, net of allowances	-	109	109
Management fees and recoveries	372,865	-	372,865
Other operating revenues	162,032	41,785,241	41,947,273
Total operating revenues	<u>5,813,160</u>	<u>42,050,803</u>	<u>47,863,963</u>
EXPENSES			
Operating expenses			
Salaries and administrative expenses	219,939	31,927,618	32,147,557
Services and supplies	127,616	9,568,720	9,696,336
Research and development direct costs	5,389,766	-	5,389,766
Depreciation and amortization	-	751,117	751,117
Total operating expenses	<u>5,737,321</u>	<u>42,247,455</u>	<u>47,984,776</u>
Operating income (loss)	<u>75,839</u>	<u>(196,652)</u>	<u>(120,813)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and investment income	-	673,069	673,069
Unrealized gain (loss) on investment holdings, net	-	(2,516,593)	(2,516,593)
Net nonoperating revenues (expenses)	<u>-</u>	<u>(1,843,524)</u>	<u>(1,843,524)</u>
Change in net position	75,839	(2,040,176)	(1,964,337)
NET POSITION, BEGINNING OF YEAR	203,764	34,244,393	34,448,157
NET POSITION, END OF YEAR	<u><u>\$ 279,603</u></u>	<u><u>\$ 32,204,217</u></u>	<u><u>\$ 32,483,820</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Financial Position
June 30, 2022

	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	\$ 15,908,141	\$ 7,318,393	\$ 5,563,056	\$ 1,740,374	\$ 125,566	\$ 5,000	\$ 30,660,530
Investments	22,453,985	538,706,889	120,667,218	1,952,556	9,918,964	-	693,699,612
Real estate held for investment	57,292,399	-	-	-	-	120,000	57,412,399
Assets held by others	-	5,873,059	-	-	566,834	7,099,723	13,539,616
Accounts receivable, net	991,726	20,893,113	1,364,461	1,767,048	775	28,784	25,045,907
Contributions receivable, net	724,144	34,062,807	321,542	-	12,051	-	35,120,544
Prepaid expenses	29,843	176,878	44,404	13,854	-	-	264,979
Other assets	2,414,066	251	84,311	41,355	-	3,374,833	5,914,816
Fixed assets, net of depreciation	123,396,739	492,291	-	16,603,858	6,599,711	-	147,092,599
Total assets	\$ 223,211,043	\$ 607,523,681	\$ 128,044,992	\$ 22,119,045	\$ 17,223,901	\$ 10,628,340	\$ 1,008,751,002
LIABILITIES							
Accounts payable and accrued expenses	\$ 1,288,166	\$ 7,614,778	\$ 1,010,219	\$ 177,451	\$ 18,401	\$ 11,723	\$ 10,120,738
Lines of credit	22,623,451	-	-	-	-	-	22,623,451
Deferred revenues	11,429,772	-	-	16,030	-	-	11,445,802
Bonds and notes payable	134,368,301	6,809,011	-	5,438,019	2,071,082	-	148,686,413
Interest rate swap	252,517	-	-	-	-	-	252,517
Other liabilities	32,342	10,612,372	-	10,007	-	7,727	10,662,448
Total liabilities	169,994,549	25,036,161	1,010,219	5,641,507	2,089,483	19,450	203,791,369
NET ASSETS							
Without donor restrictions	36,495,213	104,173,514	61,910,358	16,390,457	6,273,660	2,820,361	228,063,563
With donor restrictions	16,721,281	478,314,006	65,124,415	87,081	8,860,758	7,788,529	576,896,070
Total net assets	53,216,494	582,487,520	127,034,773	16,477,538	15,134,418	10,608,890	804,959,633
Total liabilities and net assets	\$ 223,211,043	\$ 607,523,681	\$ 128,044,992	\$ 22,119,045	\$ 17,223,901	\$ 10,628,340	\$ 1,008,751,002

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2022

	USC Development Foundation	USC Educational Foundation	USC Business Partnership Foundation	Greater USC Alumni Association	Educational Foundation of USC Lancaster	Gamecock Club of USC	Total
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS							
Revenues, gains and other support							
Contributions	\$ 2,270,474	\$ 25,436,979	\$ 3,961,798	\$ 403,655	\$ 754,217	\$ 11,573,147	\$ 44,400,270
Investment returns (losses)	(4,066,111)	1,808,450	(10,702,839)	41,283	(189,316)	(60,473)	(13,169,006)
Net realized and unrealized gains (losses)	-	(29,296,838)	-	(370,427)	-	-	(29,667,265)
Earned income	18,631,523	-	4,509,419	1,050,006	-	-	24,190,948
Program service revenue	-	-	-	2,377,570	-	-	2,377,570
Other	1,340,762	2,952,985	-	518,069	56,337	84,673	4,952,826
Net assets released from restrictions:							
Transfers	-	-	773,178	-	-	-	773,178
Satisfaction of program restrictions	263,412	136,772	2,121,004	42,401	323,813	-	2,887,402
Expiration of time restrictions	-	18,087,979	-	-	-	1,237,190	19,325,169
Total revenues, gains and other support	18,440,060	19,126,327	662,560	4,062,557	945,051	12,834,537	56,071,092
⇒ Expenses							
Scholarships and student assistance	-	15,500,320	2,693,484	-	242,616	15,122,645	33,559,065
Program services	16,248,522	31,132,210	6,709,749	1,636,788	632,652	1,008,985	57,368,906
Supporting services	568,926	4,131,033	973,182	866,405	38,291	463	6,578,300
Other expenses	-	-	-	1,656,852	-	-	1,656,852
Total expenses	16,817,448	50,763,563	10,376,415	4,160,045	913,559	16,132,093	99,163,123
Excess revenues over (under) expenses	1,622,612	(31,637,236)	(9,713,855)	(97,488)	31,492	(3,297,556)	(43,092,031)
Interest rate swap fair value adjustment	9,788,696	-	-	-	-	-	9,788,696
Change in net assets without donor restrictions	\$ 11,411,308	\$ (31,637,236)	\$ (9,713,855)	\$ (97,488)	\$ 31,492	\$ (3,297,556)	\$ (33,303,335)

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Nongovernmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2022

	USC Development Foundation	USC Educational Foundation	USC Business Partnership Foundation	Greater USC Alumni Association	Educational Foundation of USC Lancaster	Gamecock Club of USC	Total
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS							
Contributions	\$ 107,308	\$ 10,448,037	\$ 1,282,625	\$ 28,983	\$ 298,855	\$ 1,082,371	\$ 13,248,179
Investment returns (losses)	(180,317)	4,614,463	(10,777,616)	-	(1,647,832)	-	(7,991,302)
Net realized and unrealized gains (losses)	-	(77,369,518)	-	-	-	77,775	(77,291,743)
Other	-	318,970	-	-	-	-	318,970
Net assets released from restrictions:							
Transfers	-	-	(773,178)	-	-	-	(773,178)
Satisfaction of program restrictions	(263,412)	(136,772)	(2,121,004)	(42,401)	(323,813)	-	(2,887,402)
Expiration of time restrictions	-	(18,087,979)	-	-	-	(1,237,190)	(19,325,169)
Change in net assets with donor restrictions	(336,421)	(80,212,799)	(12,389,173)	(13,418)	(1,672,790)	(77,044)	(94,701,645)
Change in net assets	11,074,887	(111,850,035)	(22,103,028)	(110,906)	(1,641,298)	(3,374,600)	(128,004,980)
NET ASSETS, BEGINNING OF YEAR	42,141,607	694,337,555	149,137,801	16,588,444	16,775,716	13,983,490	932,964,613
NET ASSETS, END OF YEAR	\$ 53,216,494	\$ 582,487,520	\$ 127,034,773	\$ 16,477,538	\$ 15,134,418	\$ 10,608,890	\$ 804,959,633

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 elected by 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. Estimates are also used for the net other post-employment benefits (OPEB) and net pension liabilities as calculated by the South Carolina Public Employee Benefit Authority (PEBA). 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. Leases receivable as well as State capital appropriations receivable are also included in accounts receivable.

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 and leased assets with a unit value in excess of \$5,000 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Leases – The Campuses determine if an agreement is a lease at inception.

Lessee agreements are included in the statement of net position as capital assets (lease assets) and leases payable. Lease assets represent the Campuses' right to use an asset for the specified lease term. Lease assets and liabilities are recorded based on the present value of expected payments over the term of the leases. In accordance with the Campuses' policy, payments on leases with a term of 12 months or less or leases with a present value of \$5,000 (for equipment leases) and \$100,000 (for property leases) or less are expensed as incurred. These leases are not included in assets or liabilities on the statement of net position.

Lessor agreements are included in the statement of net position as accounts receivable (lease receivables) and deferred inflows of resources. All lessor agreements are property leases. Leases receivable represent the Campuses' claim to receive lease payments for the specified lease term and are recorded based on the present value of expected lease payments over the term of the leases. Interest revenue and deferred inflows of resources related to leases are recognized as revenue over the lease term. In accordance with the Campuses' policy, payments received on leases with a term of 12 months or less or leases with a present value of \$100,000 or less are recognized as revenue as received. These leases are not included in accounts receivable or deferred inflows of resources on the statement of net position.

Unearned Revenues and Deposits - Unearned revenues include amounts billed for tuition and fees and certain auxiliary activities (including, but not limited to, athletic ticket sales, and parking revenues) prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

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 leases payable 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.

Funds Due from Others and Funds Held for Others - Current balances in Funds Due from Others and Funds Held for Others represent custodial funds held by or owed to the Campuses on a short-term basis (three months or less) for groups and organizations that account for activities in the Campuses' accounting system and whose cash is part of the cash held on deposit with the State. This includes the Gamecock Club's cash and investments which are pooled together with the Campuses' funds on deposit with the State.

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 amount on debt refunding – the defeasance of previously outstanding bonds resulted in deferred refunding amounts. These deferred amounts 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 - increases 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 decreases in the net pension and net OPEB liabilities that were not included in expenses, and deferred inflows related to leases receivable.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 all resources not included in net investment in capital assets or restricted categories.

When an expense is incurred that can use both restricted and unrestricted resources the expense is first applied 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 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;
- (4) contracts that are essentially the same as contracts for services that finance programs the Campuses would not otherwise undertake; and
- (5) payment by grant from governmental and non-governmental entities for the purpose of conducting research activities.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, 2022.

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, 2022, \$17,212,404 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

GASB Statement No. 87, *Leases*: This Statement requires recognition of assets, 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 (lessee and lessor) with a term greater than one year. The Campuses implemented this Statement in fiscal year 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*: This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Interest cost will now be recognized as an expense in the period in which the cost is incurred. The Campuses implemented this Statement in fiscal year 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*: This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The Campuses will continue to evaluate this Statement and its impact on the financial statements. The requirements of this Statement are effective for the Campuses in fiscal year 2023.

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

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)	\$ 850,514,425
Restricted cash and cash equivalents (current) for:	
Debt service	13,855,837
Scholarship, research, instruction, and other	45,931,103
Capital projects	249,360,629
	<u>309,147,569</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	81,128,030
Federal student loans	2,116,553
Debt service reserves	1,125,710
	<u>84,370,293</u>
Investments (noncurrent)	<u>5,245,233</u>
Total	<u>\$ 1,249,277,520</u>

Disclosure, Deposits and Investments

Cash on hand	\$ 187,003
Deposits held by State Treasurer	1,243,506,140
Other deposits	339,145
Investments held by State Treasurer	4,055,764
Other investments	1,189,468
Total	<u>\$ 1,249,277,520</u>

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

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

Deposits Held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits is disclosed in the Annual Comprehensive Financial Report (ACFR) 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 ACFR of the State of South Carolina. For the fiscal year ended June 30, 2022, the balance of \$1,243,506,140 identified above as "Deposits held by State Treasurer" includes the reduction of unrealized depreciation of \$24,901,241.

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 - The Campuses' investments include common stock held by the State Treasurer for the Campuses. The investment assets held in the State's cash management pool are all Level 2 assets.

Other Investments – 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.

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.

The Campuses' investments measured and reported at fair value are classified according to the following hierarchy:

Level 1: Investments reflect prices quoted in active markets for identical assets.

Level 2: Investments reflect prices that are based on similar significant observable assets either directly or indirectly, which may include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model-driven valuations.

Level 3: Investments reflect prices based upon significant 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 \$1,168,338 Level 1 assets and \$21,130 Level 3 assets.

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 \$1,189,468 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 \$970,058.

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

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Current	
Student	\$ 19,107,295
Auxiliary enterprises	5,570,788
Federal grants and contracts	26,167,364
State grants and contracts	6,793,494
Local grants and contracts	142,925
Non-governmental grants and contracts	4,762,463
State capital appropriations	52,081,903
Leases	527,999
Accrued interest	3,601,263
	<hr/> 118,755,494
Less allowance for doubtful accounts	<hr/> (1,206,796)
Accounts receivable, net	<u>\$ 117,548,698</u>
 Noncurrent	
Leases	<hr/> \$ 32,477,070
Noncurrent accounts receivable	<u>\$ 32,477,070</u>

State capital appropriations receivable represent outstanding Capital Reserve funds that have been appropriated but not yet drawn. The State has authorized these funds for improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State.

Leases receivable represent the present value of expected payments over the term of the leases.

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.

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

NOTE 4 - CAPITAL ASSETS

	June 30, 2021	GASB 87 Accounting Change	Additions	Reductions	Net Transfers	June 30, 2022
Capital assets not being depreciated						
Land	\$ 90,555,131	\$ -	\$ -	\$ -	\$ -	\$ 90,555,131
Construction in progress	32,243,013	-	106,723,351	5,206,727	(15,655,730)	118,103,907
Works of art and historical treasures	50,618,901	-	2,390,940	-	-	53,009,841
Total capital assets not being depreciated	173,417,045	-	109,114,291	5,206,727	(15,655,730)	261,668,879
Other capital assets						
Land improvements	96,373,064	-	-	-	-	96,373,064
Buildings and improvements	1,712,587,619	-	-	1,086,745	15,655,730	1,727,156,604
Machinery, equipment and other	210,028,909	-	16,871,905	4,800,669	(113,220)	221,986,925
Vehicles	13,783,167	-	1,355,097	203,444	-	14,934,820
Intangibles	93,086,499	-	409,082	-	-	93,495,581
Leased land and improvements	-	775,684	-	-	-	775,684
Leased buildings and improvements	-	29,304,983	3,820,974	612,086	-	32,513,871
Leased machinery, equipment and other	-	37,411	-	-	-	37,411
Total capital assets at historical cost	2,125,859,258	30,118,078	22,457,058	6,702,944	15,542,510	2,187,273,960
Less accumulated depreciation for						
Land improvements	49,339,486	-	3,759,020	-	-	53,098,506
Buildings and improvements	765,286,930	-	41,163,552	678,234	-	805,772,248
Machinery, equipment and other	151,600,194	-	13,727,581	3,814,857	(113,220)	161,399,698
Vehicles	11,004,152	-	1,031,933	195,116	-	11,840,969
Intangibles	60,029,712	-	7,227,339	-	-	67,257,051
Leased land and improvements	-	-	241,033	-	-	241,033
Leased buildings and improvements	-	-	9,051,391	138,160	-	8,913,231
Leased machinery, equipment and other	-	-	11,511	-	-	11,511
Total accumulated depreciation	1,037,260,474	-	76,213,360	4,826,367	(113,220)	1,108,534,247
Other capital assets, net	1,088,598,784	30,118,078	(53,756,302)	1,876,577	15,655,730	1,078,739,713
Capital assets, net	\$ 1,262,015,829	\$ 30,118,078	\$ 55,357,989	\$ 7,083,304	\$ -	\$ 1,340,408,592

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

NOTE 5 - PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review.

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

PEBA issues an Annual Comprehensive Financial Report (ACFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The ACFR is publicly 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 ACFR 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 Campus, are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class III member.

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

NOTE 5 - PENSION PLANS, Continued

ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (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 (11.41 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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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 - Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Required **employee** contribution rates for fiscal year 2021-2022 are as follows:

<u>SCRS</u>	
Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation
<u>ORP</u>	
	9.00% of earnable compensation
<u>PORS</u>	
Employee Class II	9.75% of earnable compensation
Employee Class III	9.75% of earnable compensation

Required **employer** contribution rates¹ for fiscal year 2021-2022 are as follows:

<u>SCRS</u>	
Employer Class II	16.41% of earnable compensation
Employer Class III	16.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>ORP</u>	
Employer Contribution ²	16.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>PORS</u>	
Employer Class II	18.84% of earnable compensation
Employer Class III	18.84% 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.

Net Pension Liability – At June 30, 2022, the Campuses reported liabilities of \$770,032,333 and \$9,479,118 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2021, 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, 2021, the Campuses' proportionate shares of the SCRS and PORS plans were 3.610270% and 0.368419%, respectively.

Pension Expense – For the year ended June 30, 2022, the Campuses recognized pension expense of \$57,712,043 and \$823,904 for SCRS and PORS, respectively, for a total pension expense of \$58,535,947.

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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 2021. 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, 2021 measurement period, PEBA provided non-employer contribution to the Campuses in the amount of \$3,844,865 which is shown as a reduction to net pension liability and other grant revenue in the year ended June 30, 2022.

Deferred inflows of resources and deferred outflows of resources – At June 30, 2022, 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	\$ 13,277,694	\$ 1,048,889
Changes of assumptions	42,666,621	-
Net difference between projected and actual earnings on pension plan investments	-	112,895,848
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	1,352,162	15,153,805
Campuses contributions subsequent to the measurement date	66,449,624	-
Total	<u>\$ 123,746,101</u>	<u>\$ 129,098,542</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 374,265	\$ 34,161
Changes of assumptions	784,685	-
Net difference between projected and actual earnings on pension plan investments	-	2,459,208
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	167,351	1,479,502
Campuses contributions subsequent to the measurement date	1,278,145	-
Total	<u>\$ 2,604,446</u>	<u>\$ 3,972,871</u>

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

The \$66,449,624 and \$1,278,145 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, 2022 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2023.

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:	
2023	\$ (8,618,910)
2024	(7,735,397)
2025	(13,304,072)
2026	(42,143,686)
	<u>\$ (71,802,065)</u>

	PORS
Year ended June 30:	
2023	\$ (500,338)
2024	(614,074)
2025	(613,388)
2026	(918,770)
	<u>\$ (2,646,570)</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 for the period ending June 30, 2019.

The June 30, 2021, 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, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2021, using generally accepted actuarial principles.

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Notes to the Financial Statements

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, 2021 for SCRS and PORS.

	SCRS	PORS
	Entry age normal	Entry age normal
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return ¹	7.00%	7.00%
Projected salary increases	3.0% to 11.0% (varies by service) ¹	3.5% to 10.5% (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 2020.

Assumptions used in the June 30, 2021 TPL are as follows.

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

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, 2021, 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	\$ 55,131,579,363	\$ 33,490,305,970	\$ 21,641,273,393	60.7%
PORS	8,684,586,488	6,111,672,064	2,572,914,424	70.4%

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.

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NOTE 5 - PENSION PLANS, Continued

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 2021 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 7.00 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

Allocation / Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Public Equity ¹	46.0%	6.87%	3.16%
Bonds	26.0%	0.27%	0.07%
Private Equity ^{1,2}	9.0%	9.68%	0.87%
Private Debt ²	7.0%	5.47%	0.39%
Real Assets	12.0%		
Real Estate ²	9.0%	6.01%	0.54%
Infrastructure ²	3.0%	5.08%	0.15%
Total Expected Return ³	100.0%		5.18%
Inflation for Actuarial Purposes			2.25%
			7.43%

¹ The target weights to Private Equity will be equal its actual weight, reported by the custodial bank, as of prior month end. When flows have occurred, flow adjusted weights are used to more accurately reflect the impact of the asset class weight. Private Equity and Public Equity combine for 55% of the entire portfolio.

² Staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

³ Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 20% of total assets.

Discount Rate - The discount rate used to measure the TPL was 7.00 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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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 7.00 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 (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$1,023,416,759	\$770,032,333	\$580,066,313
PORS	13,752,998	9,479,118	5,978,170

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, 2021 (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, 2021.

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 ACFR 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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Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 6.25 percent of annual covered payroll for 2021. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid \$32,003,714, including the implicit subsidy, applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2022. 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, 2022. 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, 2022, the Campuses reported a liability of \$1,097,765,872 for its proportionate share of the SCRHITF net OPEB liability. The OPEB liability was measured as of June 30, 2021, 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, 2021, the Campuses' proportionate shares of the SCRHITF plan was 5.271843%.

OPEB Expense – For the year ended June 30, 2022, the Campuses recognized OPEB expense of \$88,262,558 for SCRHITF.

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Notes to the Financial Statements

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, 2022, 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	\$ 22,143,446	\$ 28,122,781
Changes of assumptions	222,458,801	26,418,967
Net difference between projected and actual earnings on OPEB plan investments	-	296,687
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	6,695,629	35,848,680
Campuses contributions subsequent to the measurement date	32,003,714	-
Total	<u>\$ 283,301,590</u>	<u>\$ 90,687,115</u>

The \$32,003,714 reported as deferred outflows of resources related to OPEB resulting from the Campuses' contributions subsequent to the measurement date for the SCRHITF plan during the year ended June 30, 2022 will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2023.

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:	
2023	\$ 24,739,389
2024	24,255,633
2025	32,649,951
2026	33,422,127
2027	30,393,406
Thereafter	15,150,255
	<u>\$ 160,610,761</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, 2020 actuarial valuation for SCRHITF:

Actuarial Methods and Assumptions:

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	1.92% as of June 30, 2021
Demographic assumptions	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Mortality assumptions	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience.
Healthcare trend rate	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
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 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021. In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were reset to better reflect the plan's anticipated experience.

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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Discount Rate - The Single Discount Rate of 1.92 percent 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%	0.35%	0.07%
Total	100.00%		0.55%
Expected Inflation			2.25%
Total Return			2.80%
Investment Return Assumption			2.75%

For the SCRHITF, the annual money-weighted rate of return on the plan investment was 0.39 percent.

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 1.92 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 (0.92 percent) or 1 percentage point higher (2.92 percent) than the current rate:

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

1% Decrease	Current Single Discount Rate Assumption	1% Increase
0.92%	1.92%	2.92%
\$1,323,079,332	\$1,097,765,872	\$920,133,868

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
\$880,703,641	\$1,097,765,872	\$1,386,993,981

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Notes to the Financial Statements

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 is not aware of any material disallowances.

The Campuses had outstanding commitments of \$187,495,604 for capital and \$82,975,025 for noncapital projects as of June 30, 2022. 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 – LEASES

Lessee Agreements - The Campuses lease land, space and equipment from external parties for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2039 and provide for renewal options ranging from one year to ten years. In accordance with GASB Statement No. 87, the Campuses record lease assets and lease liabilities based on the present value of expected payments over the term of the leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the Campuses' incremental borrowing rate (3.25% - 7.52%). See Note 4 for information on lease assets and the related accumulated depreciation. Future commitments for leases having remaining terms in excess of one year as of June 30, 2022 were as follows:

2023	\$ 10,384,364
2024	9,829,992
2025	2,399,929
2026	1,566,995
2027	1,230,465
2028-2032	5,299,724
2033-2037	4,333,747
2038-2039	630,239
Total minimum lease payments	<u>35,675,455</u>
Less: Interest	<u>3,830,207</u>
Present value of minimum lease payments	<u>\$ 31,845,248</u>

In the current fiscal year, the Campuses incurred expenses of \$965,067 for office copier contingent rentals on a cost per copy basis.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 8 - LEASES, Continued

Lessor Agreements - The Campuses lease land and space to both external and related parties. Lease receivables and deferred inflows of resources are recorded based on the present value of the expected receipts over the term of the leases. The expected receipts are discounted using the interest rate charged on the lease or using the Campuses' incremental borrowing rate. During the year ended June 30, 2022, the Campuses recognized revenues related to these lease agreements totaling \$2,449,426. Total minimum lease payments to be received under lessor agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 527,999	\$ 1,061,792	\$ 1,589,791
2024	496,202	1,048,189	1,544,391
2025	479,916	1,033,305	1,513,221
2026	500,142	1,017,508	1,517,650
2027	543,239	1,000,737	1,543,976
2028-2032	3,231,854	4,712,788	7,944,642
2033-2037	433,510	4,349,631	4,783,141
2038-2042	113,691	4,353,653	4,467,344
2043-2047	737,999	4,287,764	5,025,763
2048-2052	1,547,835	4,106,146	5,653,981
2053-2057	2,585,335	3,775,394	6,360,729
2058-2062	3,901,227	3,254,590	7,155,817
2063-2067	5,556,520	2,493,777	8,050,297
2068-2072	7,624,449	1,432,136	9,056,585
2073-2077	4,725,151	240,985	4,966,136
Total future receipts	<u>\$ 33,005,069</u>	<u>\$ 38,168,395</u>	<u>\$ 71,173,464</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, 2022 Balance	Debt Retired in Fiscal Year 2022
State Institution Bonds					
Series 2011A Refunding	\$ 18,525,000	3.5% to 5%	03/01/22	\$ -	\$ 2,180,000
Series 2012A Refunding	19,986,000	2.5% to 5%	04/01/24	1,997,000	1,433,000
Series 2014A	11,740,000	3% to 5%	04/01/34	8,155,000	515,000
Series 2015A	56,725,000	2% to 5%	04/01/35	41,915,000	2,335,000
Series 2015B Refunding	21,250,000	5%	04/01/26	9,810,000	2,095,000
Series 2017B	39,450,000	2.625% to 5%	04/01/37	32,485,000	1,485,000
Series 2021C Refunding	10,093,000	5%	04/01/31	9,292,000	801,000
Total State Institution Bonds				103,654,000	10,844,000
Revenue Bonds					
Athletic Facilities Revenue Bonds					
Series 2010A Athletic	65,855,000	4% to 5%	05/01/40	-	8,660,000
Series 2012A Athletic	13,580,000	2.5% to 4%	05/01/42	-	10,850,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	-	6,350,000
Series 2015A Athletic	38,270,000	3% to 5%	05/01/45	33,240,000	825,000
Series 2016A Refunding Athletic	22,400,000	4% to 5%	05/01/38	19,405,000	805,000
Series 2017A Athletic	40,325,000	4% to 5%	05/01/47	36,710,000	790,000
Series 2017B Refunding Athletic	46,990,000	5%	05/01/40	43,315,000	1,880,000
Series 2022A Refunding	36,690,000	4% to 5%	05/01/52	36,690,000	-
Total Athletic Facilities Revenue Bonds				169,360,000	30,160,000
Special Revenue Bonds					
Series 2012	61,945,000	3.5% to 5%	05/01/35	-	49,095,000
Series 2022A Refunding	39,805,000	5%	05/01/35	39,805,000	-
Total Special Revenue Bonds				39,805,000	49,095,000
Other Revenue Bonds					
Series 2012 Refunding	26,025,000	4% to 5%	05/01/34	-	17,605,000
Series 2013	26,295,000	3% to 5%	05/01/43	22,080,000	615,000
Series 2015	40,260,000	3.5% to 5%	05/01/35	23,820,000	2,920,000
Series 2016 Refunding	35,300,000	4% to 5%	05/01/39	30,760,000	1,210,000
Series 2017A Refunding	20,840,000	5%	05/01/40	19,545,000	665,000
Series 2021A	169,780,000	3% to 5%	05/01/51	169,780,000	-
Series 2021B	10,265,000	0.592% to 1.135%	05/01/26	10,265,000	-
Series 2022A Refunding	14,140,000	5%	05/01/34	14,140,000	-
Total Other Revenue Bonds				290,390,000	23,015,000
Total Revenue Bonds				499,555,000	102,270,000
Subtotal bonds payable				603,209,000	113,114,000
Plus unamortized bond premiums				107,748,752	17,060,178
Less unamortized bond discounts				-	(141,900)
Total Bonds Payable				\$ 710,957,752	\$ 130,032,278

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

The Campuses' currently outstanding debt falls within the following categories:

State Institution Bonds - General Obligation State Institution Bonds of the State of South Carolina (the "State Institution Bonds") are issued by the State on behalf of and at the request of the Campuses for any Campus permanent improvement project and are secured by a pledge of the full faith, credit and taxing power of the State and by a pledge of Tuition Fees (as such term is defined in the State Institution Bond enabling act) designated by the Board of Trustees and collected at the Campuses. State Institution Bonds are subject to a legal debt margin covenant whereby debt service cannot exceed ninety percent of Tuition Fees received in the immediate prior fiscal year. The incurrence of State Institution Bonds is subject to a legal debt margin test that required Tuition Fees for the immediately preceding fiscal year to exceed forecasted maximum annual debt service. The fiscal year 2021 Tuition Fees used to calculate the Campuses' ability to issue additional State Institution Bonds totaled \$31,248,518, which resulted in a legal annual debt service limit for State Institution Bonds issued in 2022 of \$28,097,556. The annual debt service payments for the fiscal year 2022 were \$15,601,441. Tuition Fees in fiscal year 2022 totaled \$30,875,304.

Higher Education Revenue Bonds and Special Higher Education Revenue Bonds - The Campuses issue certain revenue bonds under the Higher Education Revenue Bond Act (the "Revenue Bonds"), the proceeds of which finance (A) dormitories, apartment buildings, dwelling houses, bookstores and other Campus operated stores, laundries, dining halls, cafeterias, parking facilities, student recreational, entertainment and fitness related facilities, inns, conference and other non-degree educational facilities and similar auxiliary facilities of the Campuses and any other facilities which are auxiliary to any of the foregoing excluding, however, athletic department projects which primarily serve varsity athletic teams of the Campuses (issued as "Higher Education Revenue Bonds"), and (B) those academic facilities as may be authorized by joint resolution of the General Assembly (historically issued as "Special Higher Education Revenue Bonds").

The Higher Education Revenue Bonds are payable from and secured by a pledge of (A) certain revenues derived by the Campuses from the operation of the student and faculty housing facilities, parking facilities, and certain other auxiliary facilities from time to time designated by the Board of Trustees (the "Net Revenues") and (B) all available funds and academic fees of the Campuses, less all such revenues which are (i) otherwise designated or restricted, (ii) derived from appropriations received from the General Assembly, (iii) tuition funds pledged to the repayment of State Institution Bonds, or (iv) funds pledged to the payment of the Campuses' Athletic Facilities Revenue Bonds. Net Revenues for fiscal year 2022 were \$20,391,594. The net available funds described in (B) above totaled \$968,476,699 in fiscal year 2022.

The Special Higher Education Revenue Bonds are payable from and secured by a pledge of all available funds and academic fees of the Campuses, less all such revenues which are (i) otherwise designated or restricted, (ii) derived from appropriations received from the General Assembly, (iii) tuition funds pledged to the repayment of State Institution Bonds, (iv) funds pledged to the payment of the Campuses' Athletic Facilities Revenue Bonds, or (v) the Net Revenues. Such pledged revenues for fiscal year 2022 were \$968,476,699.

Athletic Facilities Revenue Bonds - Athletic Facilities Revenue Bonds, the proceeds of which are used by the Campuses for the financing or refinancing of the costs of acquiring, constructing, reconstructing, renovating, or equipping Athletic Facilities. The Athletic Facilities Revenue Bonds are payable from and secured by a pledge of (A) the net revenues of the Athletic Department, (B) the gross receipts from the imposition of the Admissions Fee (as defined in the bond resolution authorizing the Athletic Facilities Revenue Bonds), and (C) the gross receipts from the imposition of the Special Student Fee (as defined in the bond resolution authorizing the Athletic Facilities Revenue Bonds). Pledged revenues for athletic facilities revenue bonds in fiscal year 2022 were \$2,127,562 of special student fees, \$5,620,565 of special admission fees and \$4,082,595 of athletic department revenues.

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Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

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

On March 10, 2022, the Campuses issued \$14,140,000 in Higher Education Revenue Refunding Bonds Series 2022A to refund a portion of the Campuses' outstanding Higher Education Refunding Revenue Bonds Series 2012. The refunding transaction resulted in an aggregate debt payment reduction of \$3,259,842 over the next 12 years and a net present value savings or economic gain of \$2,926,604.

On March 10, 2022, the Campuses issued \$39,805,000 in Special Higher Education Revenue Refunding Bonds Series 2022A to refund the Campuses' outstanding Special Higher Education Revenue Bonds (Moore School of Business Project), Series 2012. The refunding transaction resulted in an aggregate debt payment reduction of \$10,272,298 over the next 13 years and a net present value savings or economic gain of \$9,127,133.

On March 10, 2022, the Campuses issued \$36,690,000 in Athletic Facilities Refunding and Improvement Revenue bonds, Series 2022A to refund the Campuses' outstanding Athletic Facilities Revenue Bonds, Series 2010A, to refund a portion of the Campuses' outstanding Athletic Facilities Revenue Bonds, Series 2012A: to refund the Campuses' outstanding Athletic Facilities Revenue Bonds, Refunding Series 2012B and to pay the costs of improvements to Williams Brice Stadium. The refunding transaction resulted in an aggregate debt payment reduction of \$9,684,496 over the next 20 years and a net present value savings or economic gain of \$3,625,767.

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

	Principal	Interest	Total
State Institution Bonds			
2023	\$ 9,126,000	\$ 4,215,225	\$ 13,341,225
2024	8,527,000	3,789,069	12,316,069
2025	8,469,000	3,374,993	11,843,993
2026	8,921,000	2,951,534	11,872,534
2027	6,553,000	2,511,681	9,064,681
2028-2032	36,048,000	7,947,473	43,995,473
2033-2037	26,010,000	2,039,694	28,049,694
Total	\$ 103,654,000	\$ 26,829,669	\$ 130,483,669
	Principal	Interest	Total
Revenue Bonds			
2023	\$ 14,250,000	\$ 23,286,217	\$ 37,536,217
2024	18,090,000	22,573,717	40,663,717
2025	18,830,000	21,822,395	40,652,395
2026	18,850,000	21,022,967	39,872,967
2027	19,830,000	20,222,669	40,052,669
2028-2032	105,690,000	86,255,494	191,945,494
2033-2037	106,175,000	59,719,069	165,894,069
2038-2042	84,395,000	35,842,413	120,237,413
2043-2047	66,495,000	18,347,487	84,842,487
2048-2052	46,950,000	5,055,100	52,005,100
Total	\$ 499,555,000	\$ 314,147,528	\$ 813,702,528

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NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2021	GASB 87 Accounting Change	Additions	Reductions	June 30, 2022	Due Within One Year	Long-Term Portion
Bonds Payable:							
State Institution Bonds	\$ 114,498,000	\$ -	\$ -	\$ 10,844,000	\$ 103,654,000	\$ 9,126,000	\$ 94,528,000
Revenue Bonds	511,190,000	-	90,635,000	102,270,000	499,555,000	14,250,000	485,305,000
Subtotal Bonds Payable	625,688,000	-	90,635,000	113,114,000	603,209,000	23,376,000	579,833,000
Unamortized Bond Premiums	106,761,742	-	18,047,188	17,060,178	107,748,752	4,376,913	103,371,839
Unamortized Bond Discounts	(141,900)	-	-	(141,900)	-	-	-
Total Bonds Payable	\$ 732,307,842	\$ -	\$ 108,682,188	\$ 130,032,278	\$ 710,957,752	\$ 27,752,913	\$ 683,204,839
Lease Obligations	\$ 1,683,308	\$ 36,166,410	\$ 4,060,089	\$ 10,064,559	\$ 31,845,248	\$ 9,493,153	\$ 22,352,095
Accrued Compensated Absences	\$ 32,358,374	\$ -	\$ 31,084,297	\$ 30,289,563	\$ 33,153,108	\$ 30,832,390	\$ 2,320,718

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. Management performs an annual review of its relationship with these entities to ensure continued compliance with accounting standards. Some component units hold endowments on behalf of the Campuses, see Note 15 for details.

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 Campuses receive funds for reimbursement of personnel services and other administrative costs from the Foundation. The Foundation receives research funding from private sources. The Campuses receive flow through funds for research from the Foundation. Complete financial statements for the Foundation can be obtained at The South Carolina Research Foundation, 202 Osborne Building, USC, Columbia, SC 29208, Attention: Kelly Epting.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

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, and to carry out the purposes of, the University of South Carolina School of Medicine based in Columbia, South Carolina, in order to augment and aid education, service, research and development in the health sciences and in the fields of preventive and curative medicine. To perform these functions, the Trust operates clinical medical practices pursuant to the provisions of the Clinical Faculty Practice Plan of the School of Medicine. The purpose of the Trust is to provide high quality healthcare in conjunction with enhanced teaching opportunities and to provide additional financial resources in support of the 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). 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 incidental administration and operational costs to include personnel provided by the Campuses from the Foundation. The Campuses also pay the Foundation for the lease of real property. 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; incidental administration and operational costs to include personnel provided by 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, and other administrative costs from the Foundation. Complete financial statements for the Foundation can be obtained at University of South Carolina Business Partnership Foundation, 1014 Green Street, Columbia, SC 29208, Attention: Jean Duke.

The 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, reimbursement of personnel services, and other administrative costs from the Association. The Campuses also pay the Association to assist with recruitment and retention of students. Complete financial statements for the Association can be obtained at 900 Senate Street, Columbia, SC 29201, Attention: Wes Hickman.

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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. Attention: Buddy Faile, Jr.

The Gamecock Club of the University of South Carolina (the Gamecock Club) was established exclusively to support University Athletics at the Columbia Campus (the Campus). Its objectives include the establishment and implementation of long-range fundraising programs to support athletic scholarships. The Campus receives scholarship funds from the Gamecock Club for student athletes and other administrative costs. 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	\$ 4,109,192
School of Medicine Educational Trust	2,757,251
Development Foundation	134,792
Educational Foundation	26,818,752
Business Partnership Foundation	5,300,482
Alumni Association	401,237
Gamecock Club	15,122,645
	<hr/>
Total	<u>\$ 54,644,351</u>

Funds Paid to Component Units

South Carolina Research Foundation	\$ 699,169
Development Foundation	4,018,075
Educational Foundation	1,446,563
Alumni Association	2,471,840
	<hr/>
Total	<u>\$ 8,635,647</u>

The majority of the South Carolina Research Foundation revenues are recorded by the Campuses as grants and contracts revenues and the majority of revenues from the other component units are recorded as nonoperating gifts revenue. Grants and contracts receivables include \$131,055 due from the South Carolina Research Foundation at June 30, 2022.

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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. Management performs an annual review of these relationships to ensure continued compliance with accounting standards. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2022 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 University 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, 2022, the Commission received an annual appropriation of \$2,430,563 and \$736 in interest income. The Commission disbursed \$1,585,544 to USC Lancaster for operations and maintenance of the physical plant, information technology, campus security, student activities and discretionary support. An additional \$10,222 was disbursed to vendors for insurance, professional services, and banking fees. There was a \$480,000 disbursement to the Educational Foundation of USC Lancaster for Founders Hall and \$14,456 for commencement expenses. USC Lancaster provides accounting services to the Commission at no charge. At June 30, 2022, the Commission had a net position of \$2,430,356.

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 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. USC Sumter provides accounting services to the Commission at no charge. During the fiscal year ended June 30, 2022, the Commission made payments to USC Sumter totaling \$430,000 for the operation and maintenance of the campus. At June 30, 2022, the Commission had a net position of \$1,165,987.

UNIVERSITY OF SOUTH CAROLINA
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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 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 \$206,754 to accomplish these objectives. During fiscal year 2022 the Union Laurens Commission also received an additional \$45,840 from a private donor. During the year ended June 30, 2022, the Commission made grants to USC Union totaling \$309,512 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 accounting services to the Commission at no charge. At June 30, 2022, the Commission had a net position of \$2,609,130.

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 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 \$148,463 for the fiscal year ended June 30, 2022. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting services to the Commission at no charge. At June 30, 2022, the Commission had a net position of \$258,031.

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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	\$ 264,097,389	\$ 95,055,919	\$ 62,433,334	\$ 14,645	\$ 2,937,119	\$ -	\$ 424,538,406
Research	71,634,468	27,369,617	44,842,372	132,448	1,681,763	-	145,660,668
Public service	34,627,879	12,236,184	26,358,031	30,545	799,876	-	74,052,515
Academic support	44,559,590	16,005,741	35,597,590	7,526	40,903	-	96,211,350
Student services	28,145,983	9,797,230	21,187,607	797,622	771,772	-	60,700,214
Institutional support	45,956,086	16,949,671	29,254,084	7,390	901,889	-	93,069,120
Operation and plant maintenance	24,672,849	10,196,525	44,565,791	20,406,101	5,261	-	99,846,527
Auxiliary enterprises	61,366,602	19,035,408	84,058,866	9,268,050	3,927,899	-	177,656,825
Scholarships and fellowships	93,737	1,444,690	35,220	-	56,850,114	-	58,423,761
Depreciation	-	-	-	-	-	76,213,360	76,213,360
Pension and OPEB expense	-	46,791,665	-	-	-	-	46,791,665
Total operating expenses	\$ 575,154,583	\$ 254,882,650	\$ 348,332,895	\$ 30,664,327	\$ 67,916,596	\$ 76,213,360	\$ 1,353,164,411

NOTE 15 – ENDOWMENTS

The Campuses' endowment funds consist of the following:

Net Position Classification	True Endowment	Quasi Endowment	Total
Restricted - nonexpendable	\$ 86,803,298	\$ -	\$ 86,803,298
Unrestricted	-	40,653,455	40,653,455
Total	\$ 86,803,298	\$ 40,653,455	\$ 127,456,753
Total endowments held by Component Units	\$ 466,210,831	\$ 81,622,794	\$ 547,833,625

NOTE 16 – SIEMENS 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 was considered a non-capitalized gift-in-kind. The final amount of \$116,666,288 was awarded in the fiscal year ended June 30, 2022.

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
2022	3.610270%	\$ 770,032,333	\$ 249,481,489	308.65%	60.70%
2021	3.668160%	927,886,950	249,570,951	371.79%	50.70%
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
2022	0.368419%	\$ 9,479,118	\$ 5,541,013	171.07%	70.40%
2021	0.431714%	14,316,567	6,435,620	222.46%	58.80%
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	
2022	\$ 66,449,624	\$ 66,449,624	\$ -	\$ 259,510,168	25.61%	
2021	59,562,716	59,562,716	-	249,481,490	23.87%	
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	
2022	\$ 1,278,145	\$ 1,278,145	\$ -	\$ 6,070,120	21.06%	
2021	1,111,001	1,111,001	-	5,541,013	20.05%	
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
2022	5.271843%	\$ 1,097,765,872	\$ 493,840,707	222.29%	7.48%
2021	5.364078%	968,294,790	493,693,596	196.13%	8.39%
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	
2022	\$ 32,003,714	\$ 32,003,714	\$ -	\$ 510,322,301	6.27%	
2021	30,312,058	30,312,058	-	493,840,707	6.14%	
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 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina-Columbia and Regionals (the Campuses), the Campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated November 18, 2022.

The financial statements of the School of Medicine Educational Trust; the USC Development Foundation; the USC Educational Foundation; the USC Business Partnership Foundation; the Greater USC Alumni Association; the Educational Foundation of USC Lancaster; and the Gamecock Club of USC, collectively, the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or reportable noncompliance associated with the aggregate discretely presented component units.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings as item 2022-COLA-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

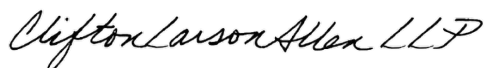
As part of obtaining reasonable assurance about whether the Campuses' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Campuses' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Campuses' response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Campuses' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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.



CliftonLarsonAllen LLP

Charlotte, NC
November 18, 2022

Financial Statement Findings and Responses

2022-COLA-001

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria or specific requirement: Management is responsible for establishing and maintaining internal controls, including monitoring, and correcting to ensure fair presentation of its financial statements, in conformity with accounting principles generally accepted in the United States of America.

Condition: The Campuses did not recognize revenue timely for certain capital appropriation reserve funds in the year appropriated which was a departure from GASB Statement No. 33. GASB Statement No. 33 states that capital appropriations and other similar transactions (referred to as voluntary nonexchange transactions) should be recognized when all eligibility requirements are met. GASB 33 eligibility requirements includes a) required characteristics of the recipient, b) time requirements, c) reimbursement requirements, and d) contingencies.

Context: This condition, which was identified by the Campuses, resulted in an understatement of revenues in the amount of \$26,250,000 relating to years prior to Fiscal Year 2022 (FY22). Capital appropriation revenues were adjusted in FY22 to recognize these amounts.

Cause: The Campuses were using a more conservative approach of recording the revenue when funds were drawn down from the state, which resulted in not properly applying GASB Statement No. 33.

Effect: Fiscal year 2022 capital appropriations revenue includes \$26,250,000 that should have been recognized in prior years. By recognizing this amount in the current year, ending net position will be correct.

Repeat Finding: No

Recommendation: The Campuses should ensure revenue recognition processes follow GASB Statement No. 33 and develop a process to review all capital appropriations annually to ensure timely revenue recognition.

Views of responsible officials and planned corrective actions: Campuses' management agrees with the audit finding and will ensure appropriate processes are in place for timely revenue recognition. The Campuses have subsequently taken steps to ensure the appropriate processes are in place to perform these tasks.

Action taken in response to finding: The Campuses identified during fiscal year end prior year capital appropriations that had not been drawn due to projects not being established. In response to this, the Campuses discussed with SC Comptroller General's Office how the State of South Carolina was treating these appropriations. It was determined that the Campuses would need to recognize these capital appropriations from prior years in FY22. The Campuses recorded the \$26,250,000 and recognized revenue in FY22. The Campuses established a procedure to record all capital appropriations as revenue during the year appropriated.

Name of the contact person responsible for corrective action: Mandy Kibler, Associate Vice President and University Controller

Planned completion date for corrective action plan: The University recorded prior year capital appropriations in FY22 during our fiscal year end close process.