

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2018

**UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals**

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, which represent approximately 80 percent, 94 percent, and 86 percent, respectively, of the assets, net position/assets, and revenues of the Campuses' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campuses are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Educational Foundation of the University of South Carolina – Lancaster, and the Gamecock Club of the University of South Carolina were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campuses as of June 30, 2018, 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.

Restatement for Implementation of New Accounting Standard and Change in Reporting Entity

As discussed in Note 16 to the financial statements, the Campuses adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal year ending June 30, 2018. In addition, the Campuses are presenting the Gamecock Club of the University of South Carolina as a discretely presented component unit for the year ended June 30, 2018. Our audit opinions are not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campuses' internal control over financial reporting and compliance.



Columbia, South Carolina
November 16, 2018

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. Management's Discussion and Analysis provides an overview and analysis of the Campuses' financial activities for the fiscal year ended June 30, 2018, with comparative information for the fiscal year ended June 30, 2017. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2018 and 2017 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses. This discussion will not include the discretely presented component units, the South Carolina Research Foundation, the University of South Carolina School of Medicine Educational Trust, the University of South Carolina Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina – Lancaster and the Gamecock Club.

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

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

STATEMENT OF NET POSITION

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

- Assets - Property that we own and what we are owed by others.
- Deferred Outflows of Resources - Consumption of net position that is applicable to a future reporting period.
- Liabilities - What we owe to others and have collected from others before we have provided the service.
- Deferred Inflows of Resources - Acquisition of net position by the government that is applicable to a future reporting period.
- Net Position - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

The Statement of Net Position is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

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

- Net investment in capital assets - Provides the institution's equity in property, plant, and equipment owned by the institution.

- Restricted net position -
 - a. Nonexpendable restricted net position consists solely of the institution's permanent endowment funds and is only available for investment purposes.
 - b. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

- Unrestricted net position – Represents resources available to the institution for any lawful purpose of the institution.

UNIVERSITY OF SOUTH CAROLINA
Columbia and Regionals
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(Unaudited)

Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 766,444,660	\$ 680,668,478	\$ 85,776,182	12.60%
Capital assets, net	1,225,879,153	1,192,528,921	33,350,232	2.80%
Other noncurrent assets	111,208,860	113,991,413	(2,782,553)	-2.44%
Total assets	<u>2,103,532,673</u>	<u>1,987,188,812</u>	<u>116,343,861</u>	5.85%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	16,922,365	9,469,063	7,453,302	78.71%
Deferred outflows related to net OPEB liability	27,092,007	-	27,092,007	0.00%
Deferred outflows related to net pension liability	138,128,341	114,092,307	24,036,034	21.07%
Total deferred outflows of resources	<u>182,142,713</u>	<u>123,561,370</u>	<u>58,581,343</u>	47.41%
LIABILITIES				
Current liabilities	186,285,254	146,965,011	39,320,243	26.75%
Noncurrent liabilities	2,135,819,401	1,306,059,346	829,760,055	63.53%
Total liabilities	<u>2,322,104,655</u>	<u>1,453,024,357</u>	<u>869,080,298</u>	59.81%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net OPEB liability	70,437,169	-	70,437,169	0.00%
Deferred inflows related to net pension liability	1,907,234	3,444,116	(1,536,882)	-44.62%
Total deferred outflows of resources	<u>72,344,403</u>	<u>3,444,116</u>	<u>68,900,287</u>	2000.52%
NET POSITION				
Net investment in capital assets	713,192,522	684,750,653	28,441,869	4.15%
Restricted - nonexpendable	84,906,521	84,465,472	441,049	0.52%
Restricted - expendable	119,228,266	117,066,086	2,162,180	1.85%
Unrestricted	(1,026,100,981)	(232,000,502)	(794,100,479)	342.28%
TOTAL NET POSITION	<u>\$ (108,773,672)</u>	<u>\$ 654,281,709</u>	<u>\$ (763,055,381)</u>	-116.62%

- Total assets of the Campuses increased by \$116.3 million due to increases in cash and restricted cash of \$52.9 million. These increases occurred as a result of bond proceeds for academic projects and increases in tuition and fee revenues. In addition, capital assets increased \$33.4 million as a result of the SCANA land purchase and the completion of the Student Health Center and athletic facility projects. (See Note 4 – *Capital Assets*)
- Deferred outflows of resources consist of:
 - The unamortized loss on debt refunding. See Note 1 - *Summary of Significant Accounting Policies*, for more information.
 - The Campuses' contributions after the measurement date and differences between the actual and expected experience in relation to the net pension liability recorded for the Campuses' proportionate share of the State of South Carolina's SCRS and PORS net pension liability, related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 5 - *Pension Plans*, for more information. Also included are the contributions after the measurement date and differences between the actual and expected experience in relation to Postemployment Benefits Other Than Pensions (OPEB) recorded for the Campuses' proportionate share of the State's net health and long-term disability liability related to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 6 - *Postemployment and Other Employee Benefits* for more information.

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- The increase in noncurrent liabilities of \$829.8 million is attributable to a \$745.0 million net postemployment benefits other than pensions liability recorded for the implementation of GASB 75 and an increase of \$63.1 in net pension liability. Pension investments earned less than expected during the fiscal year resulting in negative cash flows due to investment earnings not being substantial enough to offset plan costs and benefit payments. See Note 1, Summary of Significant Accounting Policies, for more information. Also, there was a net increase in noncurrent bonds payable of \$24.4 million due to the issuance of State Institution Bonds. For more detailed information on capital leases and bonds payable (including savings achieved through bond refunding) please refer to Note 8 – *Lease Obligations* and Note 9 – *Bonds and Notes Payable*.
- Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension and other postemployment benefits plans. Also included are the changes in the Campuses' proportionate share and differences between Campuses' contributions and proportionate share of contributions.
- The net increase of the funds due to and funds held for others increased due to the \$14 million net position of the Gamecock Club and \$10.5 million in advance ticket sales.

Restatement of Net Position

During the fiscal year, the Campuses had two events that required a restatement of beginning net position. This includes the transition of the Gamecock Club to a discretely presented component unit of the Campuses of \$13.5 million and the implementation of GASB 75 of \$795.8 million. The total restatement is a reduction in beginning net position is \$809.3 million. See Notes 6, 11 and 16 for further information.

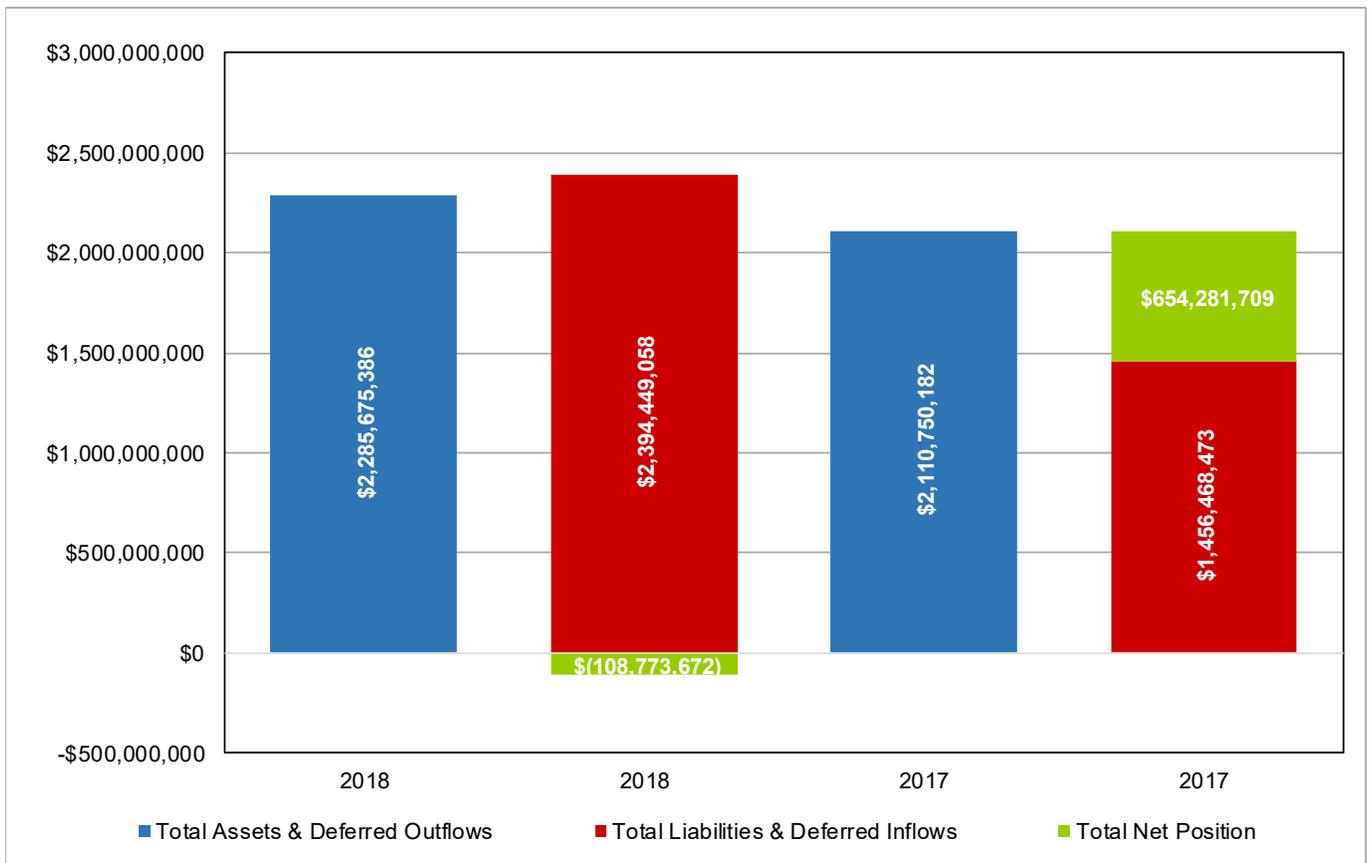
The net position of the Campuses decreased during the year by \$763.1 million. The decrease is driven by the following:

- \$28.4 million increase in net investment in capital assets – Net investment in capital assets shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets; only the debt issued to finance the Campuses' capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Net investment in capital assets increased due to the start-up and completion of various capital projects, including several athletic facility projects, construction of the new Student Health Center, SCANA land purchase, STEM classroom and laboratory renovations and continued upgrades to campus technology systems.
- \$2.2 million increase in expendable restricted - Expendable restricted net position represents resources that are constrained to a particular purpose by externally imposed stipulations. These constraints may be derived from the donor of the resources or from an external entity. Also, restrictions can be imposed as a result of enabling legislation. The majority of the increase in expendable restricted net position is attributed to the completion of the Student Health Center and the completion of the Athletic Village renovations for track and field venue and construction of a new soccer field.

**UNIVERSITY OF SOUTH CAROLINA
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- \$794.1 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenues over expenses derived from Campuses operations. The Campuses' unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific Campuses' activities including academic and research programs, capital projects and significant upgrades to the campus technology network. The majority of the decrease was due to the \$745.0 million net OPEB liability.
- Considering the Campuses' financial position excluding the pension and OPEB liabilities, the unrestricted net position increased by \$31.8 million, an 8% increase over 2017. When the required liabilities are eliminated, the Campuses show growth due to strong enrollment and net tuition and fee revenue, an increase in auxiliary enterprises – primarily athletics and housing, and moderate expenditure growth of 4.35% year over year. Expenditure growth was restrained due to a management decision to reduce operating budgets across the Columbia campus by 3% to support future strategic plans.

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



UNIVERSITY OF SOUTH CAROLINA
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid and gifts will result in operating deficits. GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the Campuses, both operating and nonoperating, and the expenses paid by the Campuses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Campuses.

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

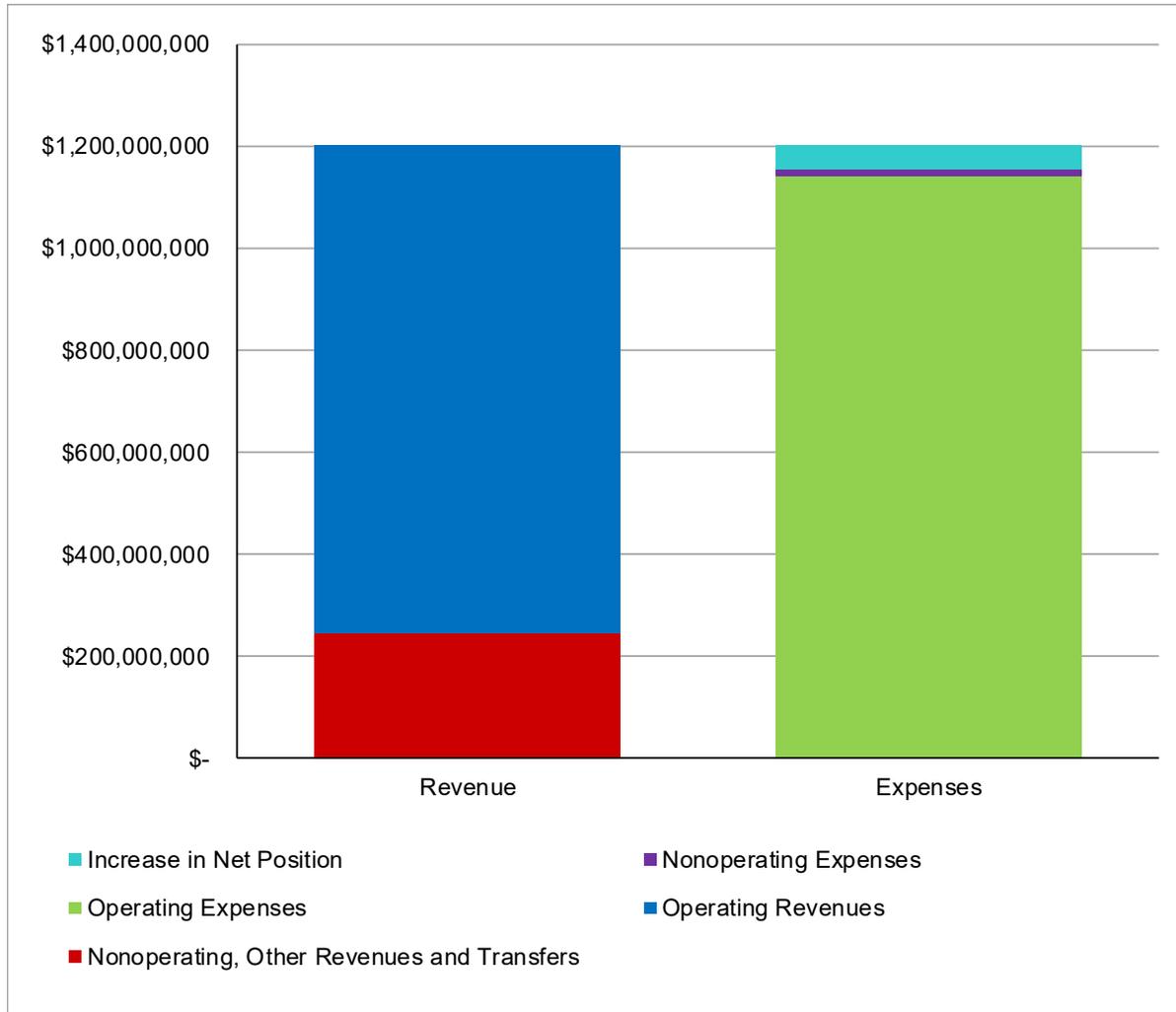
UNIVERSITY OF SOUTH CAROLINA
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Summary of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Student tuition and fees	\$ 742,237,509	\$ 697,834,643	\$ 44,402,866	6.36%
Less: scholarship allowance	(256,671,310)	(243,324,704)	(13,346,606)	5.49%
Federal grants and contracts	120,608,975	101,664,030	18,944,945	18.63%
State grants and contracts	96,216,727	102,119,234	(5,902,507)	-5.78%
Local grants and contracts	673,977	720,815	(46,838)	-6.50%
Nongovernmental grants and contracts	41,795,198	38,906,662	2,888,536	7.42%
Sales and services of educational and other activities	24,275,674	26,880,040	(2,604,366)	-9.69%
Sales and services of auxiliary enterprises	177,121,689	158,184,698	18,936,991	11.97%
Less: scholarship allowance	(2,936,402)	(2,224,692)	(711,710)	31.99%
Interest collected on student loans	274,367	252,567	21,800	8.63%
Other fees	10,919,932	10,358,364	561,568	5.42%
Other operating revenues	2,807,645	2,332,658	474,987	20.36%
Total operating revenues	<u>957,323,981</u>	<u>893,704,315</u>	<u>63,619,666</u>	<u>7.12%</u>
NONOPERATING REVENUES				
State appropriations	139,978,333	136,025,651	3,952,682	2.91%
Federal grants	33,357,506	28,874,542	4,482,964	15.53%
Gifts	51,619,303	50,262,503	1,356,800	2.70%
Investment income	4,003,846	2,381,509	1,622,337	68.12%
Endowment income	(201,427)	2,904,653	(3,106,080)	-106.93%
Total nonoperating revenues	<u>228,757,561</u>	<u>220,448,858</u>	<u>8,308,703</u>	<u>3.77%</u>
Total revenues	<u>1,186,081,542</u>	<u>1,114,153,173</u>	<u>71,928,369</u>	<u>6.46%</u>
OPERATING EXPENSES				
Salaries and wages	538,554,462	526,196,557	12,357,905	2.35%
Fringe benefits	208,096,212	187,904,784	20,191,428	10.75%
Services and supplies	275,223,978	258,417,679	16,806,299	6.50%
Utilities	32,629,400	29,758,368	2,871,032	9.65%
Scholarships and fellowships	25,050,874	23,367,749	1,683,125	7.20%
Depreciation expense	60,883,050	57,662,871	3,220,179	5.58%
Total operating expenses	<u>1,140,437,976</u>	<u>1,083,308,008</u>	<u>57,129,968</u>	<u>5.27%</u>
NONOPERATING EXPENSES				
Loss on disposal of capital assets	2,261,217	12,523,707	(10,262,490)	-81.94%
Interest on capital asset related debt	12,765,220	15,840,706	(3,075,486)	-19.42%
Total nonoperating expenses	<u>15,026,437</u>	<u>28,364,413</u>	<u>(13,337,976)</u>	<u>-47.02%</u>
Total expenses	<u>1,155,464,413</u>	<u>1,111,672,421</u>	<u>43,791,992</u>	<u>3.94%</u>
Other revenues and transfers	<u>15,622,449</u>	<u>17,111,057</u>	<u>(1,488,608)</u>	<u>-8.70%</u>
Change in net position	<u>46,239,578</u>	<u>19,591,809</u>	<u>26,647,769</u>	<u>136.01%</u>
Net position, beginning of year, as originally stated	654,281,709	634,689,900	19,591,809	3.09%
Restatement	<u>(809,294,959)</u>	<u>-</u>	<u>(809,294,959)</u>	<u>0.00%</u>
Net position, beginning of year, as restated	<u>(155,013,250)</u>	<u>-</u>	<u>(155,013,250)</u>	<u>0.00%</u>
NET POSITION, END OF YEAR	<u>\$ (108,773,672)</u>	<u>\$ 654,281,709</u>	<u>\$ (763,055,381)</u>	<u>-116.62%</u>

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

Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2018



The Statement of Revenues, Expenses and Changes in Net Position reflects a decrease in net position at the end of the year with the majority of this decrease being associated with the restatement due to the implementation of GASB 75. Some highlights of the information presented on this summary are as follows:

- Operating revenues increased \$63.6 million due to student tuition and fees, contract and grant revenues, and sales and services of auxiliary enterprises, net of the scholarship discounts and allowances.
 - Student tuition and fee revenue, net of the scholarship discounts and allowances, increased by \$31.1 million primarily due to a 3.46% tuition increase for USC Columbia campus and across the system campuses. Additionally, student demand for enrollment at the Columbia campus continued with increases in headcount and FTE enrollments. For Columbia, the combined tuition and enrollment increase accounted for the majority of the fiscal year 2018 change.
 - Nongovernmental contracts and grants increase of \$2.9 million includes a \$1.2 million increase due to a new grant from the Bill and Melinda Gates Foundation.

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(Unaudited)

- Federal contracts and grants increased by \$18.9 million due to the following grants: \$6.4 million from National Institute of Health, \$1.7 million from National Oceanic and Atmospheric Administration, \$6.1 million from US Health and Human Services awarded by SC Department of Health and Human Services, and \$1.3 million from National Institute of Health awarded by SC Department of Health and Human Services, and various smaller grants totaling \$3.4 million.
- Sales and services of auxiliary enterprises are driven by increases in Southeastern Conference (SEC) revenues for the ESPN/SEC television network, postseason athletic revenues due to successful football and women's basketball season, and athletic corporate sponsorships. Additionally, the Columbia campus leased more than 750 off-campus beds to accommodate a large freshman class.
- Nonoperating revenues increased by \$8.3 million due to increases in state appropriation revenue and Federal grants revenue. State appropriation revenue increased \$4.0 million as a result of increased recurring legislative appropriations. Federal grant revenue increased by \$4.5 million as a result of increased Federal Pell grants, as the number of Pell eligible students increased.
- Operating expenses increased \$57.1 million, or 5.27% over the prior year due to the following:
 - The majority of the increase, approximately \$32.6 million, is due to an increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment, as well as increases in retirement contribution and employer health insurance, and adjustments to fringe benefits due to the changes related to the net pension liability and the implementation of GASB 75.
 - Services and supplies increased \$16.8 million due to inflationary and enrollment increases, on-going upgrades to campus technology systems, and athletic expenses due to extended postseason competition. Utilities increased \$2.9 million due to operating costs of two new facilities: Student Health Center and Law School and an unusually cold winter. Depreciation expense increased \$3.2 million due to the addition of new capital assets including the completion of the Student Health Center.
 - Auxiliary expenses increased due to the operation of an additional health center on campus, housing rent expenses due to increased undergraduate enrollment.

STATEMENT OF CASH FLOWS

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

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

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CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, various projects on the Columbia campus were in progress including the Student Health Center and Athletic Village renovations for a track and field venue and construction of a new soccer field (both of which were completed and capitalized), and the STEM Classroom and Laboratory Building on the Columbia campus and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including the Football Operations Building.

The Campuses' indebtedness consists of bonds payable of \$587.3 million. During the current year, \$39.5 million in State Institution bonds were issued to fund the renovation for STEM Classroom and Laboratory Building, \$20.8 million in Higher Education Revenue Refunding bonds and \$46.9 million in Athletic Facilities Revenue Refunding bonds were issued to achieve interest savings.

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

ECONOMIC OUTLOOK

The economic position of the Campuses is loosely tied to that of the State of South Carolina (the State) as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations following the Great Recession for the period 2008 through 2012. For the 2019 fiscal year now underway, additional Education and General funding was provided to all campuses to support academic initiatives that promote access and affordability for residents of South Carolina. Total new operating funding is approximately \$8 million and fringe benefit funding of \$3 million is provided to support a portion of state employee retirement contributions and health insurance increases. While state institutions have not benefited from a capital bond bill for higher education since 1999-2000, critical capital project funding of \$21 million is allocated to the USC System for 2019.

The State finished the 2018 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. The state experienced a revenue surplus of more than \$177 million primarily due to higher than expected individual income tax payments and lower than expected individual refunds. Over the past three fiscal years, the state General Fund revenue collections have averaged 99.48% of the official budgeted revenue estimates. The projected increase in revenue was forecast at 4.6%, but actual growth equaled 6.7%. This increase will lead to an adjusted 2019 fiscal year growth forecast, expected to be 6.4%. South Carolina finished the 2018 fiscal year with the strongest revenue growth in the Southeastern United States.

At the end of the 2018 legislative session, a bill supporting public higher education was introduced. The Higher Education Opportunity Act (HEOA) will be debated during the next legislative season that begins in January 2019. The act is a comprehensive legislative package to restore state investment and create a sustainable funding model for higher education. The act would:

- Develop a new funding model that rewards institutions for educating South Carolinians;
- Resume state investments in assets and infrastructure through capital bond bills or other dedicated sources;
- Remove burdensome and duplicative bureaucratic red tape;
- Increase state investment in need-based aid programs that increases opportunity for students from low-income families.

The HEOA does each of these and in doing so establishes a system that keeps tuition increases in check. This new funding model is important because in 2000 higher education funding was 14.6% of the state budget, by 2008 it had fallen to less than 12% and, despite state revenue having increased by more than \$3 billion since the

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

end of the Great Recession, funding for higher education has continued to decline, representing just 7% of the state budget today. A key finding of a recent Legislative Audit Council report is that since FY2001 funding for higher education has been reduced by half and that the state has underfunded higher education by a cumulative \$4 billion in statutorily required funding over that 17-year period. More specific to USC, the last Mission Resource Requirements estimate conducted by the Commission on Higher Education for FY15, the USC System was receiving approximately \$233 million less per year in state funding than it should have been to carry out its core mission for the state. Furthermore, CHE estimates more than \$2 billion in deferred maintenance needs at colleges and universities across the state. The University expects the recent *Wayfair* decision to be an important factor in the viability of the HEOA.

The Campuses' overall financial position remains strong. The Campuses rely on tuition and fees to support the general operating budget and are aware of State funding support when tuition and fees are set each spring. For the 2019 year, the Campuses' tuition increase was 2.9% marking the eighth year of tuition increases below 4% and notably the lowest tuition increase in twenty years. Tuition increases for the 2019 year are above the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuitions for two other public institutions in the State exceed the tuition rate for the USC Columbia campus. System campus' tuitions are comparable with similar institutions in the State.

Demand for enrollment and interest in the Campuses remains strong with more than 30,000 applications received, and a freshman class enrolled at the USC Columbia campus for Fall 2018 of 5,843 students. Preliminary data indicates that this entering class is also the most academically talented in the University's history with an average SAT score of 1276 and an average ACT score of 27.8.

Innovative programs established early in Harris Pastides' now ten-year tenure as president include those that cultivate both student quality and access such as the Gamecock Gateway and the Gamecock Guarantee. The Gamecock Gateway is a program designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2018 semester, 410 new students are enrolled and more than 2,000 students have been served by the program since its inception. The Gamecock Guarantee program provides access to the lowest income South Carolinians and has served more than 1,250 students since it began in 2008. The average freshman family income of program participants is \$18,725 and gift aid is more than 92% for those who qualify. These students retain and graduate at a higher rate than the total undergraduate population.

University of South Carolina students from the state are eligible for tuition assistance based on entrance exams, rank in class and GPA. The state funding commitment for merit scholarships remains strong with funding from the South Carolina Education Lottery. Students at the USC campuses annually receive more than \$90 million across the different scholarship programs. Additionally, funding from lottery proceeds supports technology needs at the system comprehensive and Palmetto College campuses.

University fundraising surpassed \$189 million for 2018 which marks the eleventh consecutive year the University has raised more than \$100 million in private support. Research grant awards were \$258 million in the 2018 fiscal year, a \$4 million increase over the prior year. For the third year, USC hospital partners with Greenville Hospital Systems, Palmetto Health Systems, and the Veterans Administration led the increases in external funding. In conjunction with the University Foundations, the University's endowment increased to \$810 million, a 5% increase over the prior year.

USC had another successful year creating and growing partnerships that drive the knowledge economy of South Carolina. The University was recognized by the National Academy of Inventors and Intellectual Property Owners Association as one of the top patent-producing universities in the world, a distinction it has held for six years in a row. The listing is part of an annual publication based on data obtained from the U.S. Patent and Trademark Office. The Office of Economic Engagement works to connect industry partners with the university's world-class research capabilities. In December 2017, the University and Samsung created the Palmetto Consortium for Home Appliance Innovation, a robust R&D program designed to catalyze innovation, foster public/private collaboration, and nurture the next generation of advanced manufacturing professionals in South Carolina.

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Net Position
As of June 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$ 453,324,229
Restricted - cash and cash equivalents	201,254,969
Accounts receivable, net	81,812,397
Student loans receivable, current	3,019
Inventories	1,512,558
Prepaid items	63,372
Funds due from others	<u>28,474,116</u>
Total current assets	<u>766,444,660</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	89,029,830
Investments	5,059,904
Prepaid items	1,800,000
Restricted - federal student loans receivable	15,319,126
Capital assets, net of accumulated depreciation	<u>1,225,879,153</u>
Total noncurrent assets	<u>1,337,088,013</u>
Total assets	<u>2,103,532,673</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	16,922,365
Deferred outflows related to net OPEB liability	27,092,007
Deferred outflows related to net pension liability	<u>138,128,341</u>
Total deferred outflows of resources	<u>182,142,713</u>

LIABILITIES

Current liabilities:	
Accounts payable	19,442,578
Retainage payable - current portion	850,950
Accrued interest payable	4,583,601
Accrued payroll and related liabilities	20,446,364
Accrued compensated absences - current portion	22,071,152
Capital lease obligations - current portion	192,712
Bonds payable - current portion	25,799,565
Unearned revenues	48,799,562
Deposits	2,694,660
Other liabilities	548,876
Funds held for others	<u>40,855,234</u>
Total current liabilities	<u>186,285,254</u>
Noncurrent liabilities:	
Accrued compensated absences	6,592,684
Federal loan liability	14,634,866
Capital lease obligations	406,939
Bonds payable	561,530,480
Net OPEB liability	745,010,886
Net pension liability	<u>807,643,546</u>
Total noncurrent liabilities	<u>2,135,819,401</u>
Total liabilities	<u>2,322,104,655</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net OPEB liability	70,437,169
Deferred inflows related to net pension liability	<u>1,907,234</u>
Total deferred inflows of resources	<u>72,344,403</u>

NET POSITION

Net investment in capital assets	713,192,522
Restricted for:	
Nonexpendable	84,906,521
Expendable	
Scholarships, research, instruction, and other	41,954,734
Loans	2,485,162
Capital projects	67,354,953
Debt service	7,433,417
Unrestricted	<u>(1,026,100,981)</u>
Total net position	<u>\$ (108,773,672)</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2018

OPERATING REVENUES

Student tuition and fees (\$32,157,158 pledged for bonds)	\$ 742,237,509
Less: scholarship allowance	(256,671,310)
Federal grants and contracts	120,608,975
State grants and contracts	96,216,727
Local grants and contracts	673,977
Nongovernmental grants and contracts	41,795,198
Sales and services of educational and other activities	24,275,674
Sales and services of auxiliary enterprises (\$23,714,649 pledged for bonds)	177,121,689
Less: scholarship allowance	(2,936,402)
Interest collected on student loans	274,367
Other fees (\$3,929,155 pledged for bonds)	10,919,932
Other operating revenues	2,807,645
	957,323,981
Total operating revenues	957,323,981

OPERATING EXPENSES

Salaries and wages	538,554,462
Fringe benefits	208,096,212
Services and supplies	275,223,978
Utilities	32,629,400
Scholarships and fellowships	25,050,874
Depreciation expense	60,883,050
	1,140,437,976
Total operating expenses	1,140,437,976
Operating loss	(183,113,995)

NONOPERATING REVENUES (EXPENSES)

State appropriations	139,978,333
Federal grants	33,357,506
Gifts	51,619,303
Investment income	4,003,846
Endowment income	(201,427)
Loss on disposal of capital assets	(2,261,217)
Interest on capital asset related debt	(12,765,220)
	213,731,124
Net nonoperating revenues	213,731,124
Income before other revenues	30,617,129
State capital appropriations	271,443
Capital grants and gifts	13,072,834
Additions to permanent endowments	3,567,099
Transfers (to)/from other campuses, net	(1,288,927)
	46,239,578
Change in net position	46,239,578

NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED

	654,281,709
Restatement (Note 16)	(809,294,959)

NET POSITION, BEGINNING OF YEAR, AS RESTATED

(155,013,250)

NET POSITION, END OF YEAR

\$ (108,773,672)

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2018

OPERATING ACTIVITIES

Student tuition and fees	\$	481,322,962
Research grants and contracts		253,240,369
Sales and services of educational and other activities		24,227,274
Sales and services of auxiliary enterprises		172,346,969
Student loans disbursed		(2,712,023)
Student loans collected		2,372,473
Interest collected on student loans		274,367
Inflows from federal direct student loans		249,425,827
Outflows from federal direct student loans		(249,589,771)
Payments to employees for services		(537,303,951)
Payments to employees for benefits		(177,215,765)
Payments to suppliers		(302,359,438)
Payments to students for scholarships and fellowships		(25,050,874)
Other receipts		15,404,570
Inflows from agency funds		47,637,343
Outflows from agency funds		(50,218,880)
		(98,198,548)
Net cash used by operating activities		(98,198,548)

NONCAPITAL FINANCING ACTIVITIES

State appropriations		139,978,333
Federal grants		33,357,506
Gifts		49,572,345
Additions to permanent endowments		3,567,099
Transfers to other campuses, net		(1,288,927)
Federal loan liability		(344,164)
		224,842,192
Net cash provided by noncapital financing activities		224,842,192

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt		125,034,346
State capital appropriations		271,443
Capital grants and gifts		5,258,539
Purchase and construction of capital assets		(83,416,389)
Principal paid on capital asset related debt		(95,437,119)
Interest paid on capital asset related debt		(30,807,514)
		(79,096,694)
Net cash used by capital and related financing activities		(79,096,694)

INVESTING ACTIVITIES

Investment income		2,258,353
Endowment income		3,081,112
		5,339,465
Net cash provided by investing activities		5,339,465
Net increase (decrease) in cash and cash equivalents		52,886,415

Cash and cash equivalents, beginning of year		690,722,613
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Cash and cash equivalents, end of year	\$	743,609,028
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Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$	453,324,229
Restricted - cash and cash equivalents, current		201,254,969
Restricted - cash and cash equivalents, noncurrent		89,029,830
		\$ 743,609,028

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Statement of Cash Flows
For the year ended June 30, 2018

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

Operating loss	\$ (183,113,995)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	60,883,050
Accrued benefits related to net pension and OPEB liabilities	30,090,485
Student loans cancelled	93,547
Change in current assets and liabilities:	
Accounts receivable, net	(9,405,181)
Student loans receivable	(339,550)
Inventories	(97,907)
Prepaid items	647,015
Accounts payable	3,479,407
Retainage payable - noncapital	1,371,875
Accrued payroll	1,701,289
Accrued benefits	789,958
Accrued compensated absences	(457,548)
Unearned revenues	(1,089,311)
Deposits	(63,368)
Other liabilities	(6,623)
Funds held for and due from others	(2,681,691)
Net cash used by operating activities	<u><u>\$ (98,198,548)</u></u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 8,887,648</u></u>
Net change in capital grants and gifts receivable and unearned revenues	<u><u>\$ (1,073,353)</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (2,261,217)</u></u>
Capital assets acquired through capital leases	<u><u>\$ 525,091</u></u>
Change in value of other assets for cash surrender value of life insurance due to transition of Gamecock Club	<u><u>\$ (2,967,806)</u></u>
Change in value of investments recognized in endowment and investment income	<u><u>\$ (314,732)</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Governmental Discretely Presented Component Units
Statements of Net Position
June 30, 2018

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 19,836,992	\$ 19,836,992
Restricted cash and cash equivalents	153,622,205	14,514,041	168,136,246
Investments and security deposits	-	9,824,888	9,824,888
Patient and other accounts receivable, net	5,097,560	4,192,559	9,290,119
Prepaid items and deposits	40,684	-	40,684
Total current assets	<u>158,760,449</u>	<u>48,368,480</u>	<u>207,128,929</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>63,767</u>	<u>6,405,300</u>	<u>6,469,067</u>
Total assets	<u>158,824,216</u>	<u>54,773,780</u>	<u>213,597,996</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	5,942,846	20,623,203	26,566,049
Accrued compensated balances	-	277,304	277,304
Unearned revenue	152,746,669	-	152,746,669
Current portion of long term debt	-	3,400,000	3,400,000
Total liabilities	<u>158,689,515</u>	<u>24,300,507</u>	<u>182,990,022</u>
NET POSITION			
Net investment in capital assets	63,767	3,005,300	3,069,067
Unrestricted	<u>70,934</u>	<u>27,467,973</u>	<u>27,538,907</u>
Total net position	<u>\$ 134,701</u>	<u>\$ 30,473,273</u>	<u>\$ 30,607,974</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, 2018

	South Carolina Research Foundation	School of Medicine Educational Trust	Total
REVENUES			
Operating revenues			
Contracts and grants	\$ 89,234,444	\$ 30,597,042	\$ 119,831,486
Patient charges, net of allowances	-	19,064,401	19,064,401
Management fees and recoveries	3,752,640	-	3,752,640
Realized investment income, net	-	572,491	572,491
Other operating revenues	336,307	9,147,541	9,483,848
Total operating revenues	<u>93,323,391</u>	<u>59,381,475</u>	<u>152,704,866</u>
EXPENSES			
Operating expenses			
Salaries and administrative expenses	769,080	38,793,555	39,562,635
Services and supplies	1,405,234	21,281,036	22,686,270
Research and development direct costs	92,552,101	-	92,552,101
Depreciation and amortization	-	870,215	870,215
Total operating expenses	<u>94,726,415</u>	<u>60,944,806</u>	<u>155,671,221</u>
Operating income (loss)	(1,403,024)	(1,563,331)	(2,966,355)
NONOPERATING REVENUES (EXPENSES)			
Private gifts and donations	(1,501)	(12,875,637)	(12,877,138)
Interest and investment income	1,100,381	-	1,100,381
Unrealized gain (loss) on investment holdings, net	-	288,822	288,822
Net nonoperating revenues (expenses)	<u>1,098,880</u>	<u>(12,586,815)</u>	<u>(11,487,935)</u>
Change in net position	(304,144)	(14,150,146)	(14,454,290)
NET POSITION, BEGINNING OF YEAR	438,845	44,623,419	45,062,264
NET POSITION, END OF YEAR	<u><u>\$ 134,701</u></u>	<u><u>\$ 30,473,273</u></u>	<u><u>\$ 30,607,974</u></u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Financial Position
June 30, 2018

	USC Development Foundation	USC Educational Foundation	USC Business Partnership Foundation	Greater USC Alumni Association	Educational Foundation of USC Lancaster	Gamecock Club of USC	Total
ASSETS							
Cash and cash equivalents	\$ 9,121,205	\$ 7,533,499	\$ 4,139,312	\$ 3,086,811	\$ 79,139	\$ 5,000	\$ 23,964,966
Investments	26,210,685	472,621,811	97,274,426	7,807,605	8,401,206	-	612,315,733
Real estate held for investment	35,545,888	3,868,527	-	-	-	192,000	39,606,415
Assets held in trust	-	27,041,959	4,209,074	-	-	10,461,003	41,712,036
Accounts receivable, net	976,551	15,885,158	527,906	2,248,724	845,226	29,357	20,512,922
Contributions receivable, net	1,900,324	30,667,642	3,345,756	-	60,678	-	35,974,400
Prepaid expenses	27,453	-	21,209	188,135	-	-	236,797
Other assets	4,029,922	251	60,334	41,355	-	3,052,587	7,184,449
Fixed assets, net of depreciation	147,582,585	1,622,747	-	20,822,842	7,501,234	-	177,529,408
Total assets	\$ 225,394,613	\$ 559,241,594	\$ 109,578,017	\$ 34,195,472	\$ 16,887,483	\$ 13,739,947	\$ 959,037,126
LIABILITIES							
Accounts payable and accrued expenses	\$ 3,077,359	\$ 12,290,471	\$ 1,161,044	\$ 384,282	\$ 13,404	\$ 250	\$ 16,926,810
Lines of credit	51,305,541	-	-	-	-	-	51,305,541
Deferred revenues	4,300,531	-	-	199,115	-	-	4,499,646
Bonds and notes payable	131,208,940	9,933,004	-	20,933,004	3,456,136	-	165,531,084
Interest rate swap	1,296,064	-	-	-	-	-	1,296,064
Other liabilities	37,825	11,611,924	-	-	-	21,993	11,671,742
Total liabilities	191,226,260	33,835,399	1,161,044	21,516,401	3,469,540	22,243	251,230,887
NET ASSETS							
Unrestricted	15,674,413	111,055,554	50,102,888	9,894,051	5,172,917	5,086,623	196,986,446
Temporarily restricted	15,276,263	120,650,733	24,618,353	2,785,020	2,542,109	5,528,031	171,400,509
Permanently restricted	3,365,928	293,699,908	33,695,732	-	5,702,917	3,103,050	339,567,535
Total Foundation net assets	34,316,604	525,406,195	108,416,973	12,679,071	13,417,943	13,717,704	707,954,490
Noncontrolling interest	(148,251)	-	-	-	-	-	(148,251)
Total net assets	34,168,353	525,406,195	108,416,973	12,679,071	13,417,943	13,717,704	707,806,239
Total liabilities and net assets	\$ 225,394,613	\$ 559,241,594	\$ 109,578,017	\$ 34,195,472	\$ 16,887,483	\$ 13,739,947	\$ 959,037,126

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2018

	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 UNRESTRICTED NET ASSETS							
Revenues, gains and other support							
Contributions	\$ 759,231	\$ 28,488,808	\$ 953,247	\$ 502,025	\$ 733,649	\$ 12,494,076	\$ 43,931,036
Investment returns (losses)	2,059,991	3,756,331	4,212,037	112,186	87,214	540,809	10,768,568
Net realized and unrealized gains (losses)	(294,250)	9,498,794	-	600,102	-	-	9,804,646
Earned income	19,269,343	-	3,520,273	1,232,447	-	-	24,022,063
Program service revenue	-	-	-	2,482,739	-	-	2,482,739
Other	670,187	1,015,793	-	209,222	59,798	210,203	2,165,203
Net assets released from restrictions:							
Transfers	-	-	1,172,674	-	340,904	-	1,513,578
Reclassification based on law change	-	-	(1,270)	-	-	-	(1,270)
Satisfaction of program restrictions	5,082,446	2,424,698	1,827,410	59,541	74,181	-	9,468,276
Expiration of time restrictions	-	11,667,359	-	-	-	1,718,919	13,386,278
Total revenues, gains and other support	<u>27,546,948</u>	<u>56,851,783</u>	<u>11,684,371</u>	<u>5,198,262</u>	<u>1,295,746</u>	<u>14,964,007</u>	<u>117,541,117</u>
Expenses							
Scholarships and student assistance	-	13,060,731	1,512,848	299,475	188,364	14,169,751	29,231,169
Program services	22,804,660	30,684,590	5,073,865	1,888,763	611,582	1,339,921	62,403,381
Supporting services	4,823,337	4,794,295	527,245	1,027,445	118,594	75,732	11,366,648
Other expenses	-	-	-	2,218,924	-	-	2,218,924
Total expenses	<u>27,627,997</u>	<u>48,539,616</u>	<u>7,113,958</u>	<u>5,434,607</u>	<u>918,540</u>	<u>15,585,404</u>	<u>105,220,122</u>
Excess revenues over (under) expenses	(81,049)	8,312,167	4,570,413	(236,345)	377,206	(621,397)	12,320,995
Interest rate swap fair value adjustment	3,285,350	-	-	-	-	-	3,285,350
Change in unrestricted net assets	<u>\$ 3,204,301</u>	<u>\$ 8,312,167</u>	<u>\$ 4,570,413</u>	<u>\$ (236,345)</u>	<u>\$ 377,206</u>	<u>\$ (621,397)</u>	<u>\$ 15,606,345</u>

UNIVERSITY OF SOUTH CAROLINA - Columbia and Regionals
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2018

	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 TEMPORARILY RESTRICTED NET ASSETS							
Contributions	\$ 588,628	\$ 1,685,069	\$ 1,715,437	\$ 367,969	\$ 11,315	\$ 2,464,813	\$ 6,833,231
Investment returns (losses)	184,716	3,117,041	4,452,206	-	613,775	-	8,367,738
Net realized and unrealized gains (losses)	-	22,440,387	-	-	-	84,781	22,525,168
Other	1,201	-	-	218,018	-	-	219,219
Net assets released from restrictions:							
Transfers	-	-	(1,174,524)	-	(384,074)	-	(1,558,598)
Reclassification based on law change	-	-	1,270	-	-	-	1,270
Satisfaction of program restrictions	(5,082,446)	(2,502,655)	(1,827,410)	(59,541)	(74,181)	-	(9,546,233)
Expiration of time restrictions	-	(15,178,151)	-	-	-	(1,718,919)	(16,897,070)
Change in temporarily restricted net assets	<u>(4,307,901)</u>	<u>9,561,691</u>	<u>3,166,979</u>	<u>526,446</u>	<u>166,835</u>	<u>830,675</u>	<u>9,944,725</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS							
Contributions	-	5,897,765	2,858,535	-	43,883	-	8,800,183
Net assets released from restrictions:							
Transfers	-	-	1,850	-	43,170	-	45,020
Satisfaction of program restrictions	-	77,957	-	-	-	-	77,957
Expiration of time restrictions	-	3,510,792	-	-	-	-	3,510,792
Change in permanently restricted net assets	<u>-</u>	<u>9,486,514</u>	<u>2,860,385</u>	<u>-</u>	<u>87,053</u>	<u>-</u>	<u>12,433,952</u>
Change in net assets	(1,103,600)	27,360,372	10,597,777	290,101	631,094	209,278	37,985,022
Net change attributable to noncontrolling interest	(38,092)	-	-	-	-	-	(38,092)
NET ASSETS, BEGINNING OF YEAR	<u>35,458,296</u>	<u>498,045,823</u>	<u>97,819,196</u>	<u>12,388,970</u>	<u>12,786,849</u>	<u>13,508,426</u>	<u>670,007,560</u>
NET ASSETS, END OF YEAR	<u>\$ 34,316,604</u>	<u>\$ 525,406,195</u>	<u>\$ 108,416,973</u>	<u>\$ 12,679,071</u>	<u>\$ 13,417,943</u>	<u>\$ 13,717,704</u>	<u>\$ 707,954,490</u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Campuses are part of the University of South Carolina (the University) system. The University is a component unit of the State of South Carolina (the State). As a discretely presented component unit of the State, the University is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Campuses report deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campuses' special deposit accounts is posted at the end of each month based on the percentage of the Campuses' accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

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

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

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

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

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

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

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

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2018 was \$6,436,790.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Compensated Absences - Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; (3) net pension and net OPEB liabilities; and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

In December Congress passed, and the President signed into law, the Tax Cuts and Jobs Act (TCJA) of 2017. This legislation featured several changes that could ultimately impact both public and private higher education institutions, their benefactors and employees. As of June 30, 2018, the Internal Revenue Service had yet to provide guidance in the form of proposed regulations and/or notices, or amended tax forms regarding the implementation of the TCJA by exempt organizations. Consequently, the Campuses have not accrued a liability for any changes referenced in the TCJA. It is our opinion, that had any liabilities been recorded, they would not have been material to the Campuses' financial statements.

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

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

These revenues include:

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campuses had no rebatable arbitrage liability at June 30, 2018.

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, 2018, \$17,046,463 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented cumulative net appreciation of donor-restricted endowments.

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)	<u>\$ 453,324,229</u>
Restricted cash and cash equivalents (current) for:	
Debt service	7,998,191
Scholarship, research, instruction, and other	39,335,577
University administered loans	179,242
Capital projects	<u>153,741,959</u>
	<u>201,254,969</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	79,734,364
Federal student loans	1,624,258
Debt service reserves	<u>7,671,208</u>
	<u>89,029,830</u>
Investments (noncurrent)	<u>5,059,904</u>
Total	<u><u>\$ 748,668,932</u></u>
Notes	
Cash on hand	\$ 599,251
Deposits held by State Treasurer	742,681,126
Other deposits	328,651
Investments held by State Treasurer	3,733,275
Other investments	<u>1,326,629</u>
Total	<u><u>\$ 748,668,932</u></u>

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

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

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

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2018, \$2,907,741 of the \$742,681,126 identified above as "Deposits held by State Treasurer" is attributable to unrealized depreciation.

The Campuses have adopted applicable accounting standards for their financial assets and liabilities which clarify that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Campuses utilize market data or assumptions that market participants would use in pricing the asset or liability. The standards establish a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Campuses' investments consist of \$930,678 Level 1 assets, \$259,132 Level 2 assets, and \$136,819 Level 3 assets. The investment assets held in the State's cash management pool are all Level 2 assets.

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

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

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

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

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

Other investments totaling \$1,326,629 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 \$314,732.

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

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	\$	14,827,701
Auxiliary enterprises		11,843,921
Federal grants and contracts		36,212,293
State grants and contracts		9,669,329
Local grants and contracts		180,839
Non-governmental grants and contracts		7,697,996
Accrued interest		2,826,734
		83,258,813
Less allowance for doubtful accounts		(1,446,416)
Accounts receivable, net	\$	81,812,397

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 administrating the loan programs.

Capital Improvement Bonds Proceeds Receivable – This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, university infrastructure bonds and capital reserve fund appropriations to fund improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

At June 30, 2018, the Campuses had no capital improvement bond proceeds receivable.

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

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land and improvements	\$ 80,513,478	\$ 7,944,542	\$ -	\$ 88,458,020
Construction in progress	72,317,226	65,719,705	55,505,192	82,531,739
Works of art and historical treasures	37,238,821	3,020,646	19,476	40,239,991
Total capital assets not being depreciated	<u>190,069,525</u>	<u>76,684,893</u>	<u>55,524,668</u>	<u>211,229,750</u>
Other capital assets				
Land improvements	96,363,454	-	-	96,363,454
Buildings and improvements	1,463,198,834	60,288,705	21,688	1,523,465,851
Machinery, equipment and other	196,240,354	16,138,057	21,712,025	190,666,386
Vehicles	16,614,654	1,150,365	1,672,246	16,092,773
Intangibles	63,671,392	1,322,578	7,434,874	57,559,096
Total capital assets at historical cost	<u>1,836,088,688</u>	<u>78,899,705</u>	<u>30,840,833</u>	<u>1,884,147,560</u>
Less accumulated depreciation for				
Land improvements	34,283,958	3,765,496	-	38,049,454
Buildings and improvements	612,573,177	36,694,786	-	649,267,963
Machinery, equipment and other	149,351,511	12,122,174	20,037,353	141,436,332
Vehicles	11,186,449	866,068	1,369,782	10,682,735
Intangibles	26,234,197	7,434,526	3,607,050	30,061,673
Total accumulated depreciation	<u>833,629,292</u>	<u>60,883,050</u>	<u>25,014,185</u>	<u>869,498,157</u>
Other capital assets, net	<u>1,002,459,396</u>	<u>18,016,655</u>	<u>5,826,648</u>	<u>1,014,649,403</u>
Capital assets, net	<u>\$ 1,192,528,921</u>	<u>\$ 94,701,548</u>	<u>\$ 61,351,316</u>	<u>\$ 1,225,879,153</u>

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

NOTE 5 - PENSION PLANS

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

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

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publically available through the Retirement Benefits' link on PEBA's website at www.peba.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

Plan Description

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

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

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

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

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

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

NOTE 5 - PENSION PLANS, Continued

ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (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 (8.41 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

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

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

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

The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. An incidental death benefit is also available to beneficiaries of active and retired members.

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

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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

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

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement.

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

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Required **employee** contribution rates for fiscal year 2017-2018 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 2017-2018 are as follows:

<u>SCRS</u>	
Employer Class II	13.41% of earnable compensation
Employer Class III	13.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>ORP</u>	
Employer Contribution ²	13.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>PORS</u>	
Employer Class II	15.84% of earnable compensation
Employer Class III	15.84% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

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

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

Of the ORP employer contribution of 13.41% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Teacher and Employee Retention Incentive - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Net Pension Liability - At June 30, 2018, the Campuses reported liabilities of \$794,580,604 and \$13,062,942 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2017, 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, 2017, the Campuses' proportionate shares of the SCRS and PORS plans were 3.578113% and 0.476830%.

Pension Expense - For the year ended June 30, 2018, the Campuses recognized pension expense of \$85,148,150 and \$1,603,309 for SCRS and PORS, respectively, for a total pension expense of \$86,751,459.

Deferred inflows of resources and deferred outflows of resources - At June 30, 2018, 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	\$ 3,583,532	\$ 440,658
Changes of assumptions	46,540,389	-
Net difference between projected and actual earnings on pension plan investments	22,193,465	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	13,635,918	1,373,203
Campuses contributions subsequent to the measurement date	49,035,569	-
Total	<u>\$ 134,988,873</u>	<u>\$ 1,813,861</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 112,302	\$ -
Changes of assumptions	1,195,280	-
Net difference between projected and actual earnings on pension plan investments	448,774	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	375,514	93,373
Campuses contributions subsequent to the measurement date	1,007,598	-
Total	<u>\$ 3,139,468</u>	<u>\$ 93,373</u>

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

The \$49,035,569 and \$1,007,598 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, 2018 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2019.

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:	
2019	\$ 25,231,616
2020	37,581,664
2021	27,150,821
2022	(5,824,658)
	\$ 84,139,443

	PORS
Year ended June 30:	
2019	\$ 580,789
2020	785,260
2021	579,040
2022	93,408
	\$ 2,038,497

Actuarial Assumptions and Methods - Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued July 1, 2015.

The June 30, 2017, 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, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.5% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

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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, 2017 for SCRS and PORS.

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

¹ Includes inflation at 2.75%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the June 30, 2017 TPL are as follows.

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

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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Net Pension Liability - The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2017, 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
SCRS	\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.3%
PORS	7,013,684,001	4,274,123,178	2,739,560,823	60.9%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

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 2017 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 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	<u>100.0%</u>		<u>5.31%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.56%</u>

Discount Rate - The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis - The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.25 percent, as well as what the Campuses' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$1,027,231,885	\$794,580,604	\$653,376,016
PORS	17,637,458	13,062,942	9,459,658

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, 2017 (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, 2017.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.50% of annual covered payroll for 2018 and 5.33% of annual covered payroll for 2017. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$26,167,000 and \$24,722,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2018 and 2017, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2018. 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.

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Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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, 2018, the Campuses reported liabilities of \$744,958,167 and \$52,719 for its proportionate share of the SCRHITF and SCLTDITF net OPEB liability, respectively. The OPEB liabilities were measured as of June 30, 2017, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation as of that date. The University's proportionate shares of the OPEB liabilities were based on the University's long-term share of contributions to the postemployment benefits plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the University's proportionate shares of the SCRHITF and SCLTDITF plans were 5.499942% and 2.907866%, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Post-Employment Benefits Other Than Pensions (OPEB) – At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

South Carolina Long-Term Disability Insurance Trust Fund

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	4,783
Net difference between projected and actual earnings on OPEB plan investments	25,400	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	-	1,308
Campuses contributions subsequent to the measurement date	232,581	-
Total	<u>\$ 257,981</u>	<u>\$ 6,091</u>

South Carolina Retiree Health Insurance Trust Fund

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 323,316
Changes of assumptions	-	70,097,099
Net difference between projected and actual earnings on OPEB plan investments	1,280,045	-
Changes in proportion and differences between Campuses contributions and proportionate share of contributions	-	10,663
Campuses contributions subsequent to the measurement date	25,553,981	-
Total	<u>\$ 26,834,026</u>	<u>\$ 70,431,078</u>

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Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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 and SCLTDITF plans, respectively:

	SCLTDITF
Year ended June 30:	
2019	\$ 5,670
2020	5,670
2021	5,670
2022	5,670
2023	(680)
Thereafter	(2,691)
	\$ 19,309

	SCRHITF
Year ended June 30:	
2019	\$ (10,956,175)
2020	(10,956,175)
2021	(10,956,175)
2022	(10,956,175)
2023	(11,276,192)
Thereafter	(14,050,141)
	\$ (69,151,033)

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, 2016 actuarial valuation for SCRHITF:

Actuarial Methods and Assumptions:

Actuarial cost method	Entry age normal
Inflation	2.25%
Investment rate of return	4.00%, net of OPEB plan investment expense, including inflation
Single discount rate	3.56% as of June 30, 2017
Demographic assumptions	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015
Mortality assumptions	RP-2000 Mortality (White Collar Adjustment for Educators), projected using Scale AA from Year 2000. Male rates multiplied by 100% for non-educators and 110% for educators. Female rates multiplied by 90% for non-educators and 95% for educators
Healthcare trend rate	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% 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
Aging factors	Based on plan specific experience
Expenses	The investment return assumption is net of the investment expenses; Administrative expenses related to the health care benefits are included in the age-adjusted claims costs
Roll forward disclosure	The actuarial valuation was performed as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017
Notes	There were no benefit changes during the year The discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

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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, 2016 actuarial valuation for SCLTDITF:

Actuarial Methods and Assumptions:

Actuarial cost method	Entry age normal
Inflation	2.25%
Investment rate of return	4.00%, net of OPEB plan investment expense, including inflation
Single discount rate	3.87% as of June 30, 2017
Salary, termination rates and retirement rates	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015
Disability incidence	The disability incidence rates used in the LTD valuation are based on the rates developed for the pension plans
Disability recovery	For participants in payment, 1987CGDT Group disability For active employees, 60% were assumed to recover after the first year and 92% were assumed to recover after the first two years
Offsets	40% are assumed to be eligible for Social Security benefits Assumed percentage who will be eligible for a pension plan offset varies based on employee group
Expenses	The investment return assumption is net of the investment expenses; Administrative expenses related to the health care benefits are included in the age-adjusted claims costs
Notes	There were no benefit changes during the year The single discount rate changed from 3.74% as of June 30, 2016 to 3.87% as of June 30, 2017.

Discount Rate - A Single Discount Rate of 3.87% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on OPEB plan investments of 4.00% and a municipal bond rate of 3.56%. The projection of cash flows used to determine this Single Discount Rate assumed that employer contributions will remain \$38.64/year for each covered active employee. Based on these assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2037. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2037, and the municipal bond rate was applied to all benefit payments after that date.

The Single Discount Rate of 3.56% 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).

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Long Term Expected Rate of Return

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Allocation- Weighted Long- Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total	<u>100.00%</u>		<u>1.84%</u>
Expected Inflation			<u>2.25%</u>
Total Return			<u><u>4.09%</u></u>
 Investment Return Assumption			 4.00%

For the SCRHITF and the SCLTDITF, the annual money-weighted rate of return on the plan investments were 1.36% and 1.00%, respectively.

Sensitivity Analysis - The following table presents the University's proportionate share of the SCRHITF net other postemployment benefits (OPEB) liability calculated using the discount rate of 3.56 percent, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

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

1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
<u>\$ 877,350,179</u>	<u>\$ 744,958,167</u>	<u>\$ 638,217,815</u>

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
<u>\$ 610,896,577</u>	<u>\$ 744,958,167</u>	<u>\$ 918,535,731</u>

UNIVERSITY OF SOUTH CAROLINA
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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

The following table presents the Campuses' proportionate share of the SCLTDITF net OPEB liability calculated using the discount rate of 3.87 percent, as well as what the Campuses' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 93,785	\$ 52,719	\$ 12,408

Restatement for adoption of New Accounting Standard - The Campuses implemented Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. The implementation of the statement required the Campuses to record beginning net OPEB liability and the effects on unrestricted net position of contributions made by the Campuses during the measurement period (fiscal year ended June 30, 2017). As a result, ending unrestricted net position for the Campuses for the year ended June 30, 2017 decreased by \$795,786,533. This decrease resulted in the restatement of unrestricted net position. See Note 16 for a summary of the restatement of beginning net position.

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

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

The Campuses had outstanding commitments under construction contracts of \$36,402,850 for capital and \$428,913 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

NOTE 8 - LEASE OBLIGATIONS

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

Real Property Operating Leases

2019	\$	8,880,159
2020		6,746,633
2021		2,692,274
2022		2,587,208
2023		2,195,736
2024-2028		9,281,762
2029-2033		6,536,742
2034-2038		7,217,092
2039		1,531,167
Total minimum lease payments		<u>\$ 47,668,773</u>

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NOTE 8 - LEASE OBLIGATIONS, Continued

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2019-2039. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$11,846,514 for fiscal year 2018. Of this amount, \$274,664 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$682,798 for office copier contingent rentals on a cost per copy basis.

The Campuses have a 35 year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the entire term. As of June 30, 2018, the remaining unamortized prepaid balance related to the parking lease agreement was \$1,900,000 with \$100,000 reflected as a current asset.

Capital Leases - held by the Campuses as of June 30, 2018:

	Cost	Accumulated Depreciation	Net
Equipment	\$ 911,792	\$ 367,894	\$ 543,898

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

2019	\$ 223,111
2020	124,523
2021	124,523
2022	121,321
2023	87,311
Total minimum lease payments	680,789
Less amount representing interest	(81,138)
Present value of minimum lease payments by year	\$ 599,651

Capital lease obligations consist of:

Agreement with Hewlett Packard payable in monthly principal payments of \$9,859 with a fixed interest rate of 3.05%. This agreement expires in April 2019. \$ 97,225

Agreements with Presidio for copiers payable in monthly principal payments ranging from \$13 to \$247 with fixed interest rates ranging from 5.76% to 6.76%. The agreements expire September 2023. 502,426

Present value of minimum lease payments by lease	\$ 599,651
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UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2018 Balance	Debt Retired in Fiscal Year 2018
State Institution Bonds					
Series 2011A Refunding	\$ 18,525,000	3.5% to 5%	03/01/22	\$ 8,180,000	\$ 1,850,000
Series 2011E	20,420,000	4.125% to 5%	03/01/31	15,045,000	830,000
Series 2012A Refunding	20,156,000	2.5% to 5%	04/01/24	7,287,000	1,156,000
Series 2014A	11,740,000	3% to 5%	04/01/34	10,075,000	420,000
Series 2015A	56,725,000	2% to 5%	04/01/35	50,730,000	1,975,000
Series 2015B Refunding	21,250,000	5%	04/01/26	17,695,000	1,805,000
Series 2017B	39,450,000	2.625% to 5%	04/01/37	38,020,000	1,430,000
Total State Institution Bonds				147,032,000	9,466,000
Revenue Bonds					
Series 2008A	48,225,000		06/01/38	-	1,155,000
Series 2008A Athletic	27,395,000		05/01/38	-	705,000
Series 2010A	28,510,000	4%	06/01/40	1,365,000	23,230,000
Series 2010A Athletic	65,855,000	4% to 5%	05/01/40	11,950,000	45,875,000
Series 2010B Refunding Athletic	12,840,000	4% to 5%	05/01/27	2,680,000	6,820,000
Series 2012	61,945,000	3.5% to 5%	05/01/35	55,920,000	2,080,000
Series 2012 Refunding	26,025,000	4% to 5%	05/01/34	21,115,000	1,065,000
Series 2012A Athletic	13,580,000	2.5% to 4%	05/01/42	11,850,000	310,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	26,295,000	3% to 5%	05/01/43	24,365,000	510,000
Series 2015 Athletic	38,270,000	3% to 5%	05/01/45	36,325,000	690,000
Series 2015	40,260,000	3.5% to 5%	05/01/35	34,690,000	2,725,000
Series 2016 Refunding	35,300,000	4% to 5%	05/01/39	35,300,000	-
Series 2016A Refunding Athletic	22,400,000	4% to 5%	05/01/38	22,400,000	-
Series 2017A Athletic	40,325,000	4% to 5%	05/01/47	39,655,000	670,000
Series 2017B Refunding Athletic	46,990,000	5%	05/01/40	46,990,000	-
Series 2017A Refunding Housing	20,840,000	5%	05/01/40	20,840,000	-
Total Revenue Bonds				371,795,000	85,835,000
Subtotal bonds payable				518,827,000	95,301,000
Plus unamortized bond premiums				68,683,645	4,647,623
Less unamortized bond discounts				(180,600)	(12,900)
Total Bonds Payable				\$ 587,330,045	\$ 99,935,723

State Institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2018 was \$30,295,002 for state institution bonds.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2018 were \$17,572,114 from sales and services of auxiliary enterprises.

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2018 consisted of \$1,862,156 in special student fees, \$3,929,155 in special admission fees and \$6,142,535 in athletic department revenues included in sales and services of auxiliary enterprises.

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

On August 24, 2017, the Campuses issued \$39,450,000 in State Institution bonds for renovations to the former law school for classroom and lab upgrades. The bonds have coupons ranging from 2.625% to 5.0% with a maturity date of April 1, 2037 callable on October 1, 2027.

On September 14, 2017, on behalf of the Athletic Department, the Campuses issued \$46,990,000 in Athletic Facilities Revenue Refunding bonds to partially refund Series 2010A and Series 2010B Athletic Facilities Revenue bonds with a final maturity of May 1, 2040 callable on May 1, 2027. The refunding transaction resulted in a deferred loss on refunding of \$5,495,673, and aggregate debt payment reduction of \$6,454,510 over the next 22 years and an economic gain of \$5,132,298.

On September 14, 2017 the Campuses issued \$20,840,000 in Higher Education Revenue Refunding bonds to partially refund Series 2010A Revenue bonds with a maturity date of May 1, 2040 callable on May 1, 2027. The refunding transaction resulted in a deferred loss on refunding of \$2,355,704, an aggregate debt payment reduction of \$3,089,586 over the next 22 years and an economic gain of \$2,352,937.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2019	\$ 9,646,000	\$ 6,263,685	\$ 15,909,685
2020	10,126,000	5,781,385	15,907,385
2021	10,510,000	5,370,635	15,880,635
2022	11,033,000	4,845,135	15,878,135
2023	9,322,000	4,293,485	13,615,485
2024-2028	40,455,000	15,081,675	55,536,675
2029-2033	36,855,000	6,655,794	43,510,794
2034-2037	19,085,000	1,217,687	20,302,687
Total	<u>\$ 147,032,000</u>	<u>\$ 49,509,481</u>	<u>\$ 196,541,481</u>
Revenue Bonds			
2019	\$ 12,670,000	\$ 17,580,281	\$ 30,250,281
2020	13,260,000	16,989,531	30,249,531
2021	13,605,000	16,336,831	29,941,831
2022	14,280,000	15,669,231	29,949,231
2023	14,975,000	14,968,231	29,943,231
2024-2028	81,170,000	63,339,606	144,509,606
2029-2033	90,200,000	42,993,781	133,193,781
2034-2038	77,940,000	22,105,188	100,045,188
2039-2043	40,075,000	7,314,575	47,389,575
2044-2047	13,620,000	1,210,200	14,830,200
Total	<u>\$ 371,795,000</u>	<u>\$ 218,507,455</u>	<u>\$ 590,302,455</u>

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 117,048,000	\$ 39,450,000	\$ 9,466,000	\$ 147,032,000	\$ 9,646,000	\$ 137,386,000
Revenue Bonds	389,800,000	67,830,000	85,835,000	371,795,000	12,670,000	359,125,000
Subtotal Bonds Payable	506,848,000	107,280,000	95,301,000	518,827,000	22,316,000	496,511,000
Unamortized Bond Premiums	55,576,922	17,754,346	4,647,623	68,683,645	3,496,465	65,187,180
Unamortized Bond Discounts	(193,500)	-	(12,900)	(180,600)	(12,900)	(167,700)
Total Bonds Payable	<u>\$ 562,231,422</u>	<u>\$ 125,034,346</u>	<u>\$ 99,935,723</u>	<u>\$ 587,330,045</u>	<u>\$ 25,799,565</u>	<u>\$ 561,530,480</u>
Capital Lease Obligations	\$ 210,679	\$ 525,091	\$ 136,119	\$ 599,651	\$ 192,712	\$ 406,939
Accrued Compensated Absences	\$ 29,121,385	\$ 25,313,980	\$ 25,771,529	\$ 28,663,836	\$ 22,071,152	\$ 6,592,684

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

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

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust (the Trust), both of which are considered governmental component units. In addition, the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; 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 non-governmental reporting entities.

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

Governmental Discretely Presented Component Units

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

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

The Trust is involved in continuing discussions regarding the integration of patient operations with its primary affiliated hospital/healthcare partner. During fiscal year 2015, a new 501(c)(3) entity was formed. The two members are Palmetto Health and the Trust. The new entity's name is Palmetto Health University of South Carolina Medical Group ("PHUSCMG"). An announcement was made in September 2018 that Greenville Health System, Palmetto Health and Palmetto Health-USC Medical Group along with their existing brands will be retired and will move to the new name and brand - Prisma Health. This will occur in early 2019. Formal Management Service Agreements and other operating agreements and documents were finalized and operational during fiscal year 2017. PHUSCMG provides healthcare services to substantially the same patient and demographic populations as before. Complete financial statements for the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202, Attention: Jeff Perkins.

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 11 - COMPONENT UNITS, Continued

Non-Governmental Discretely Presented Component Units

The University of South Carolina Development Foundation (the Foundation) operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Campuses including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the Campuses. The Campuses receive funds for rent, the lease of real property and reimbursement for computer and personnel services provided by the Campuses from the Foundation. The Campuses also pay the Foundation for the lease of real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 1027 Barnwell St. Columbia, SC 29208, Attention: Jason Caskey.

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fundraising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 1027 Barnwell St. Columbia, SC 29208, Attention: Jason Caskey.

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

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

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

The Gamecock Club of the University of South Carolina (the Gamecock Club) was established exclusively to support University Athletics at the Columbia Campus. Its objectives include the establishment and implementation of long-range fund-raising programs to support athletic scholarships. In fiscal year 2017 the Controller's Office along with the Columbia Athletic Department made the decision to take the necessary steps to transition the Gamecock Club from the Athletic Department and to treat the Gamecock Club as a discretely presented component unit in accordance with GASB standards. As a result, ending restricted net position for the University for the year ended June 30, 2017 decreased by \$13,508,426. See Note 16 for a summary of the total restatement of beginning net position. The University receives scholarship funds from the Gamecock Club for student athletes. Complete financial statements for the Gamecock Club can be obtained at 1304 Heyward St., Columbia, SC 29208, Attn: Jeff Tallant.

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Notes to the Financial Statements

NOTE 11 - COMPONENT UNITS, Continued

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	\$ 13,228,055
USC School of Medicine Educational Trust	1,664,604
USC Development Foundation	5,459,291
USC Educational Foundation	30,237,620
USC Business Partnership Foundation	1,555,003
Greater USC Alumni Association	169,458
Educational Foundation of USC Lancaster	209,140
Gamecock Club of USC	14,169,751
Total	<u>\$ 66,692,922</u>

Funds Paid to Component Units

South Carolina Research Foundation	\$ 60,291
USC Development Foundation	1,358,967
USC Educational Foundation	441,324
USC Business Partnership Foundation	34,593
Greater USC Alumni Association	2,405,007
Educational Foundation of USC Lancaster	21,747
Total	<u>\$ 4,321,929</u>

The majority of the South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other component units are recorded as private gifts revenue. Federal grants and contracts receivables include \$4,667,046 due from the South Carolina Research Foundation at June 30, 2018.

NOTE 12 - RELATED PARTIES

There are several separately chartered legal entities which do not meet the criteria established by GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, to be treated as component units of the Campuses. These entities are the local higher education commissions. While they are not financially accountable to the Campuses, these organizations exist primarily to provide financial assistance and other support to the Campuses and educational programs. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2018 include significant transactions between them and the Campuses which are as follows:

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NOTE 12 - RELATED PARTIES, Continued

Lancaster County Commission for Higher Education - The Lancaster County Commission for Higher Education (the Commission) was created under Act 126 of the 1959 Session of the General Assembly of South Carolina. The Commission is composed of seven members who are appointed by the Governor on the recommendation of a majority of the Lancaster County Legislative Delegation, including the Senator. The Commission's purpose is the encouragement of higher education in Lancaster and adjacent areas and, more specifically, the establishment in Lancaster County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Lancaster County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Lancaster County designated specifically for the University of South Carolina Lancaster (USC Lancaster). During the fiscal year ended June 30, 2018, the Commission received an annual appropriation of \$1,738,374 and \$782 in interest income. The Commission disbursed \$1,000,000 to USC Lancaster for operations and maintenance of the physical plant and \$14,466 to vendors for insurance, professional services, banking fees and commencement expenses. There was also a \$480,000 disbursement to the Educational Foundation of USC Lancaster for Founders Hall. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2018, the Commission had a net position of \$1,443,474.

Western Carolina Higher Education Commission - The Western Carolina Higher Education Commission (the Commission) was created under Act 270 in the 1984 Session of the General Assembly of South Carolina. The Commission is composed of ten members, two of whom are from each of the following counties: Allendale, Bamberg, Barnwell, Colleton, and Hampton. The members are appointed by the Governor upon the recommendation of a majority of the Legislative Delegations from the respective counties. The Commission's purpose is the encouragement of higher education in the respective counties and adjacent areas and, more specifically, the establishment of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Allendale, Bamberg, Barnwell, Colleton, and Hampton counties to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Salkehatchie (USC Salkehatchie) of \$132,889 for the fiscal year ended June 30, 2018. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. At June 30, 2018, the Commission had a net position of \$182,429.

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Notes to the Financial Statements

NOTE 12 - RELATED PARTIES, Continued

Mid-Carolina Commission for Higher Education, formerly known as Sumter County Commission for Higher Education - The Sumter County Commission for Higher Education was created under Act 50 of the 1965 Session of the General Assembly of South Carolina. In 1996, by an act of the state legislature, the Sumter County Commission for Higher Education was restructured as the Mid-Carolina Commission for Higher Education (the Commission) representing Sumter, Lee, and Clarendon Counties. The nine commission members are appointed by the Governor upon recommendation by the respective county legislative delegations, with one each from Lee and Clarendon Counties, and the remaining seven members from Sumter County. The purpose of the Commission is the encouragement of higher education in Sumter County and adjacent areas and, more specifically, the establishment in Sumter County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The University of South Carolina Sumter (USC Sumter) operates the Sumter Campus under contract with the Commission at a cost of \$1 annually. During the fiscal year ended June 30, 2018, the Commission made payments to USC Sumter totaling \$597,817 for the operation and maintenance of the campus. At June 30, 2018, the Commission had a net position of \$629,859.

Union Laurens Commission for Higher Education - The Union County Commission for Higher Education was created by Act 23 in the 1965 Session of the General Assembly of South Carolina and was repealed by Act 288 of the 1987 Session of the General Assembly of South Carolina which created the Union Laurens Commission for Higher Education (the Commission). The Commission is composed of nine members, with seven being residents of Union County and two being residents of Laurens County. The members are appointed by the Governor upon recommendation by the Union and Laurens County Legislative Delegations. The Commission is responsible for the encouragement of higher education in Union and Laurens Counties and adjacent areas and, more specifically, the establishment in Union and Laurens Counties of facilities to offer standard freshman and sophomore college courses and those other courses considered desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Union and Laurens counties of \$174,005 to accomplish these objectives. During the year ended June 30, 2018, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$141,576 for campus projects and maintenance, rental of facilities, community service and institutional support. The Commission provides its land and buildings to USC Union at no cost. USC Union provides clerical, accounting, and cash management services to the Commission at no charge. At June 30, 2018, the Commission had a net position of \$2,746,665.

NOTE 13 - RISK MANAGEMENT

The Campuses have a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control, and risk financing alternatives to reduce loss potential. Currently, the Columbia campus has established an Enterprise Risk Management (ERM) process using the guidance of International Standards Organization (ISO) 3100-2009 "Risk Management - Principals and Guidelines". ISO provides principles, framework and process for managing any form of risk in a systematic, transparent and credible manner. The ERM program is committed to: preventing adverse claim experience through training, education and inspection; advising and assisting university managers in identifying potential risks and losses; advising and assisting university managers in implementing controls to mitigate risks; and procuring appropriate insurance policies. The Campuses mitigate the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities.

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

NOTE 13 - RISK MANAGEMENT, Continued

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.

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 Fidelity Bond, and Workers' Compensation.

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

NOTE 14 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 246,015,014	\$ 95,208,892	\$ 44,316,333	\$ 93,201	\$ 1,220,154	\$ -	\$ 386,853,594
Research	61,523,316	27,443,031	39,717,436	109,694	736,150	-	129,529,627
Public service	32,178,066	11,513,645	16,549,472	44,612	340,628	-	60,626,423
Academic support	41,744,012	15,602,082	20,177,205	8,948	27,390	-	77,559,637
Student services	26,055,485	9,724,769	19,771,998	803,368	158,725	-	56,514,345
Institutional support	45,009,076	18,157,246	17,982,587	10,622	14,820	-	81,174,351
Operation & plant maintenance	24,166,569	10,932,914	47,552,611	22,402,776	17	-	105,054,887
Auxiliary enterprises	61,783,978	18,045,926	68,950,705	9,156,179	1,834,450	-	159,771,238
Scholarships and fellowships	78,946	1,467,707	205,631	-	20,718,540	-	22,470,824
Depreciation	-	-	-	-	-	60,883,050	60,883,050
Total operating expenses	\$ 538,554,462	\$ 208,096,212	\$ 275,223,978	\$ 32,629,400	\$ 25,050,874	\$ 60,883,050	\$ 1,140,437,976

NOTE 15 – ENDOWMENTS AND SIMILAR FUNDS

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

Net Position Classification	<u>True Endowment</u>	<u>Quasi Endowment</u>	<u>Total</u>
Restricted - nonexpendable	\$ 84,906,521	\$ -	\$ 84,906,521
Unrestricted	-	69,520,150	69,520,150
Total	\$ 84,906,521	\$ 69,520,150	\$ 154,426,671
Endowment Funds Held by USC Foundations	\$ 360,174,772	\$ -	\$ 360,174,772

NOTE 16 – RESTATEMENT OF BEGINNING NET POSITION

During the fiscal year, the Campuses had two events that required a restatement of beginning net position. The transition of the Gamecock Club from the University Athletic Department to a discretely presented component unit of the Campuses and the implementation of Governmental Accounting Standards Board (GASB) Statement 75 are reflected in the restatement of the beginning net position in the Statement of Revenues, Expenses and Changes in Net Position. Details of each of these events can be found in Note 6 for the GASB Implementation and Note 11 for the Gamecock Club.

Transition of Gamecock Club to a discretely presented component unit	\$ (13,508,426)
Implementation of GASB 75	(795,786,533)
Total Restatement	\$ (809,294,959)

UNIVERSITY OF SOUTH CAROLINA
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Notes to the Financial Statements

NOTE 17 – SEIMENS PRODUCT LIFESTYLE MANAGEMENT SOFTWARE

On July 7, 2017, the University of South Carolina was notified by Siemens Product Lifecycle Management Software that it was the recipient of an academic grant for site licenses valued at \$628,883,890. This will be considered a non-capitalized gift-in-kind. \$162,218,740 was awarded in the fiscal year ended June 30, 2018. Future awards are as follows:

2019	\$116,666,286
2020	116,666,288
2021	116,666,288
2022	116,666,288
	<hr/>
	\$466,665,150
	<hr/> <hr/>

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

	SCRS				
	2018	2017	2016	2015	2014
Campuses' proportion of the net pension liability	3.578113%	3.43923%	3.44617%	3.45256%	3.45256%
Campuses' proportionate share of the net pension liability	<u>\$ 794,580,604</u>	<u>\$ 734,613,625</u>	<u>\$ 653,583,503</u>	<u>\$ 594,431,289</u>	<u>\$ 619,266,649</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 239,685,660</u>	<u>\$ 229,659,380</u>	<u>\$ 227,051,819</u>	<u>\$ 213,526,173</u>	<u>\$ 212,408,093</u>
Campuses' proportionate share of the net pension liability as a percentage of its covered-employee payroll	331.51%	319.87%	287.86%	278.39%	291.55%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.91%	56.99%	59.90%	56.39%

	PORS				
	2018	2017	2016	2015	2014
Campuses' proportion of the net pension liability	0.476830%	0.391736%	0.407142%	0.411620%	0.411620%
Campuses' proportionate share of the net pension liability	<u>\$ 13,062,942</u>	<u>\$ 9,936,036</u>	<u>\$ 8,873,651</u>	<u>\$ 7,886,324</u>	<u>\$ 8,532,719</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 5,565,057</u>	<u>\$ 5,037,053</u>	<u>\$ 5,112,939</u>	<u>\$ 4,964,416</u>	<u>\$ 4,510,969</u>
Campuses' proportionate share of the net pension liability as a percentage of its covered-employee payroll	234.73%	197.26%	173.55%	158.86%	189.15%
Plan fiduciary net position as a percentage of the total pension liability	60.90%	60.44%	64.57%	67.50%	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

	SCRS				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 49,035,569	\$ 41,678,599	\$ 37,176,186	\$ 35,495,129	\$ 33,225,459
Contributions made to pension plan	49,035,569	41,678,599	37,176,186	35,495,129	33,225,459
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Campuses' covered employee payroll	\$ 243,306,047	\$ 239,685,660	\$ 229,659,380	\$ 227,051,819	\$ 213,526,173
Contributions as a portion of covered employee payroll	20.15%	17.39%	16.19%	15.63%	15.56%

	PORS				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 1,007,598	\$ 802,588	\$ 686,322	\$ 681,738	\$ 635,671
Contributions made to pension plan	1,007,598	802,588	686,322	681,738	635,671
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Campuses' covered employee payroll	\$ 6,264,601	\$ 5,565,057	\$ 5,037,053	\$ 5,112,939	\$ 4,964,416
Contributions as a portion of covered employee payroll	16.08%	14.42%	13.63%	13.33%	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 Long-Term Disability Insurance Trust Fund	
	2018	2017
Campuses' proportion of the net OPEB liability	2.907866%	2.90787%
Campuses' proportionate share of the net OPEB liability	<u>\$ 52,719</u>	<u>\$ 20,201</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 463,825,510</u>	<u>\$ 439,097,000</u>
Campuses' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.01%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	95.29%	95.29%

	South Carolina Retiree Health Insurance Trust Fund	
	2018	2017
Campuses' proportion of the net OPEB liability	5.499942%	5.49994%
Campuses' proportionate share of the net OPEB liability	<u>\$ 744,958,167</u>	<u>\$ 795,766,330</u>
Campuses' covered-employee payroll during the measurement period	<u>\$ 463,825,510</u>	<u>\$ 439,097,000</u>
Campuses' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	160.61%	181.23%
Plan fiduciary net position as a percentage of the total OPEB liability	7.60%	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.

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 Long-Term Disability Insurance Trust Fund	
	2018	2017
Contractually required contribution	\$ 232,581	\$ 231,096
Contributions made to plan	232,581	231,096
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Campuses' covered employee payroll	\$ 475,763,663	\$ 463,825,510
Contributions as a portion of covered employee payroll	0.05%	0.05%

	South Carolina Retiree Health Insurance Trust Fund	
	2018	2017
Contractually required contribution	\$ 25,553,981	\$ 24,721,900
Contributions made to plan	25,553,981	24,721,900
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Campuses' covered employee payroll	\$ 475,763,663	\$ 463,825,510
Contributions as a portion of covered employee payroll	5.37%	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.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina (the University), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated November 16, 2018. Our report includes a reference to other auditors who audited the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust (the Trust); the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, (collectively referred to as the Trust and the Foundations), as described in our report on the Campuses' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Trust, the University of South Carolina Development Foundation, the Gamecock Club of the University of South Carolina, and the Foundations, excluding the South Carolina Research Foundation, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2018-001, 2018-002, and 2018-003 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Campuses' Response to Findings

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

Purpose of this Report

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



Columbia, South Carolina
November 16, 2018

University of South Carolina - Columbia and Regionals

Schedule of Findings

For the year ended June 30, 2018

I. Summary of Auditor's Results

Financial Statements

(a.) Type of auditor's report:	Unmodified
(b.) Internal control over financial reporting:	
1) Material weaknesses identified:	No
2) Significant deficiencies identified:	Yes
(c.) Noncompliance material to financial statements noted:	No

II. Financial Statement Findings:

2018-001: Capital Assets

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

Condition: In prior years, the University's capital asset module was not fully updated for disposals that were identified during the University's annual physical count. The Controller's Office assumed responsibility for the annual physical count for fiscal year 2018. As a part of the analysis, significant adjustments were needed to correct these prior year omissions. However, in some instances, the adjustments to the capital asset module resulted in misclassifications in the financial statements (services and supplies, depreciation, and loss on disposal) and in the footnotes.

Context: We noted the above condition while reviewing the financial statements and related note disclosures.

Effect: Capital asset related expenses were not properly classified on the Statement of Revenues, Expenses and Changes in Net Position and in the footnotes. This resulted in an audit adjustment reclassifying services and supplies and depreciation expense and a passed adjustment reclassifying services and supplies and loss on disposal of capital assets. In addition, prior year capital asset balances may have included assets that were no longer in service at the University.

Cause: Prior to fiscal year 2018, the University did not have adequate internal controls to ensure discrepancies in the annual physical count were properly recorded. In the current year, the Controller's Office recorded adjustments in the module but failed to identify the misclassifications that resulted.

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

Views of responsible officials and planned corrective actions: Management agrees with the finding and recommendation. Management acknowledges the continued improvement in this area during this past fiscal year, but additional controls are needed to ensure asset activity is properly monitored and recorded timely.

University of South Carolina – Columbia and Regionals

Schedule of Findings

For the year ended June 30, 2018

2018-002: Funds Due From (Held For) Others

Criteria: Generally accepted accounting principles (GAAP) requires that funds due from (held for) others be accurately recorded in the financial statements.

Condition: The University acts as an agent on behalf of others and at year-end holds funds for others or is due funds from others. At June 30, 2018, the University improperly grossed up these amounts and overstated both funds due from others and funds held for others by approximately \$15.6 million and \$13.1 million, respectively. As part of this misstatement, the University understated noncurrent restricted cash and deposits by approximately \$2.6 million and \$100,000, respectively. These misstatements had no impact on the Statement of Revenues, Expenses and Changes in Net Position and no impact on ending net position.

Context: We noted the above condition while reviewing the financial statements.

Effect: Funds due from (held for) others were not properly classified on the Statement of Net Position. This resulted in a passed adjustment reclassifying funds due from others, funds held for others, noncurrent restricted cash and deposits.

Cause: Agency accounts that result in funds due from (held for) others at year-end were not properly mapped to the financial statements in University's general ledger system.

Recommendation: We recommend that the University remap all agency accounts to ensure that funds due from (held for) others are properly presented in the financial statements at year-end.

Views of responsible officials and planned corrective actions: Management acknowledges this finding and will ensure a review of the mapping for agency accounts is completed.

2018-003: Grants

Criteria: Generally accepted accounting principles (GAAP) and the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) requires that grants are recognized in the proper period, reconciled in a timely manner, and federal grants are properly reported on the Schedule of Expenditures of Federal Awards (SEFA).

Condition: The following grant conditions were identified during the current year:

- a. The University recognized approximately \$8 million of federal grant revenue in the current year that should have been recognized in prior years.
- b. The University provided us with multiple versions of the SEFA. One revised version included approximately \$2.8 million of additional expenditures for the following loan programs; Perkins, Nursing Faculty, Health Professions Student, and Nursing Student. Other revised versions included changes in CFDA numbers and awarding agency names which resulted in the Trio Cluster exceeding the Uniform Guidance Type A threshold for major program determination.
- c. The Controller's Office identified that the University's Grants and Funds Management Department failed to perform timely reconciliations of individual grant awards and bill for incurred and allowable expenditures during prior years.

University of South Carolina – Columbia and Regionals

Schedule of Findings

For the year ended June 30, 2018

2018-003: Grants, Continued

Context: We noted the above conditions a and b while testing federal grant revenue and performing the single audit. Condition c was identified over the last year as a part of the Controller's Office Grants and Funds Management cleanup project. Details of the cleanup project were provided to Audit and Advisory Services during an internal review of Grants Accounting which includes Grants and Funds Management.

Effect: The following effects were considered based on the above conditions:

- a. Federal grant revenue was overstated by approximately \$8 million. This revenue should have been recognized in prior years and part of beginning net position. This was included as a passed adjustment from a prior year finding (2016-002).
- b. The SEFA was understated by approximately \$2.8 million. In addition, we had to revise our major program determination for each new version provided. The final version resulted in identification of a new major program whose previously reported expenditures were below the Uniform Guidance Type A threshold.
- c. The Controller's Office is in process of fully reconciling all individual grant awards. At this time, the Controller's Office estimates approximately \$2.5 million of uncollectible grant receivables. Of this \$2.5m, \$1.5m was related to untimely billing and invoicing errors. The balance was related to sponsor bankruptcy and refusal to pay (\$426k), federal reporting errors (\$110k), and project reconciliations and conversions to PeopleSoft (\$489k).

Cause: Upon implementation of the University's new general ledger system, PeopleSoft, the Grants and Funds Management Department did not adequately setup nor use PeopleSoft to ensure all grant activity would be recorded, reconciled and billed in a timely manner. Certain grant awards went unbilled and unreconciled for an extended period of time. In addition, year-end procedures performed by the Controller's Office did not properly recognize federal grant revenue or accurately prepare the SEFA in accordance with the Uniform Guidance.

Recommendation: We recommend that the Controller's Office continues to investigate and correct all unreconciled grant awards and establish procedures to ensure timely reconciliations are performed going forward. Furthermore, the Controller's Office should establish review procedures to ensure federal grants are properly recognized in the financial statements and reported accurately on the SEFA.

Views of responsible officials and planned corrective actions: Management agrees with the finding and recommendation. Management acknowledges the continued improvement in this area during this past fiscal year. Additional procedures, processes and controls are being developed to ensure grant activity is properly monitored and recorded timely and accurately.