COUNTY COUNCIL OF BEAUFORT COUNTY

ADMINISTRATION BUILDING
100 RIBAUT ROAD
POST OFFICE DRAWER 1228
BEAUFORT, SOUTH CAROLINA 29901-1228
TELEPHONE: (843) 255-1000
FAX: (843) 255-9401
www.bcgov.net

D. PAUL SOMMERVILLE
CHAIRMAN

STEWART H. RODMAN
VICE CHAIRMAN

COUNCIL MEMBERS
_____

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LAURA L. VON HARTEN

GARY KUBIC
COUNTY ADMINISTRATOR
_____

BRYAN J. HILL
DEPUTY COUNTY ADMINISTRATOR
_____

JOSHUA A. GRUBER
COUNTY ATTORNEY
_____

SUZANNE M. RAINEY
CLERK TO COUNCIL

AGENDA
FINANCE COMMITTEE
Monday, April 21, 2014
1:30 p.m.
Conference Room, Building 3
Beaufort Industrial Village
102 Industrial Village Road, Beaufort

Committee Members:
Rick Caporale, Chairman
Steve Fobes, Vice Chairman
Brian Flewelling
William McBride
Stu Rodman
Jerry Stewart

Staff Support
Alicia Holland, Chief Financial Officer

1. CALL TO ORDER – 1:30 P.M.

2. CONSIDERATION OF CONTRACT AWARD
   A. Sole Source Annual Service and Licensing Support of Aerial Pictometry (backup)

3. PRESENTATIONS / FY 2015 BUDGET PROPOSALS
   A. Library (request)
   B. Sheriff's Office
   C. Probate Court (request)
   D. Treasurer's Office (request)
   E. USC-Beaufort (request) (uscb-cafr) (usc-cafr) (small business request) (small business-cafr)
   F. Auditor's Office (request)
   G. Clerk of Court / Family Court (request) (family court iv-d)

4. CONSIDERATION OF REAPPOINTMENTS AND APPOINTMENTS
   A. Accommodations Tax Board

5. ADJOURNMENT

<u>2014 Strategic Plan: Committee Assignments</u>
Budget Document/Process and Financial Reporting: Revision
Mitchelville Historic Site Development: Funding
Reserve Policy

COUNTY COUNCIL OF BEAUFORT COUNTY
PURCHASING DEPARTMENT

106 Industrial Village Road, Bldg 2—Post Office Drawer 1228
Beaufort, South Carolina 29901-1228

TO: Councilman Rick Caporale, Chairman, Finance Committee

FROM: Dave Thomas, CPPO, Purchasing Director

SUBJ: Sole Source Annual Service and Licensing Support of Aerial Pictometry

DATE: April 21, 2014

BACKGROUND: The Purchasing Department received a request from the GIS Department for the remaining payment of calendar year 2013 annual service and licensing support from the sole source vendor, Pictometry International Corporation. The service includes the aerial photography of the County and licensing support of the pictometry software. This service allows the GIS Department to continue to utilize aerial photography in support of the County's operations, such as Stormwater projects, disaster recovery, public safety, online County commerce, and other data analysis projects. We are currently in negotiations for the calendar year 2015 annual service and licensing support.

SOLE SOURCE VENDOR INFORMATION:	COST
Pictometry International Corp., Rochester, NY	$75,270

FUNDING: Account # 10001152-51250, GIS - Aerial Photos (Current Balance: $80,000)

PRIOR YEAR COST: $75,270

FOR ACTION: Finance Committee meeting on April 21, 2014.

RECOMMENDATION: The Purchasing Department recommends that the Finance Committee approve the remaining expenditure of $75,270 for calendar year 2013 annual service and licensing support from the aforementioned vendor in support of County operations.

CC: Gary Kubic, County Administrator GKubic
Bryan Hill, Deputy Administrator
Alicia Holland, Chief Financial Officer AH
Dan Morgan, MIS Director

Att: Pricing Information, Sole Source Document

INVOICE

Invoice #: INV010403
Invoice Date: 4/15/2013

Pictometry International Corp.
100 Town Centre Drive, Suite A
Rochester, NY 14623
Phone 585.486.0093 Fax 585.486.0098

Beaufort County, SC
Attn: Finance Department
P O Drawer 1228
Beaufort, SC 29901-1228

'roj Name: 2013 Beaufort, SC
'roj Description:

PO Number	Payment Terms	Salesperson	Shipping Method	VIA	[Not Found]
3RD FLGT - 2	Net 365	EF	PICTOMETRY	Pictometry	13BEAUSC001

Item	Extended Price
Image Library - Licensed Images/Software/Training, etc...	
License payment 2 of 2 per the Image Library License - DUE 04/15/2014	$73,605.00
Contingency Bank	$1,395.00
Addendum signed 02/02/2009 for additional 12 sectors Community Pkg C3	$270.00
ıue This Project:	$75,270.00

ax:	$0.00
ıubtotal:	$75,270.00
otal Tax This Invoice:	$0.00
reight:	$0.00
liscellaneous:	$0.00
otal Due This Invoice:	$75,270.00

Non-Competitive Purchases Form

This form shall be completed for any non-competitive purchase over $2,500 that is not exempt.

(a)A County contract may be awarded without competition when the Purchasing Director determines in writing, after conducting a good faith review of available sources, that there is only one source for the required supply, service, or construction item. The Purchasing Director shall conduct negotiations, as appropriate, as to price, delivery, and terms. A record of sole source procurements shall be maintained as public record and shall list each contractor's name, the amount and type of each contract, a listing of the items procured under each contract, and the identification of each contract file.
(b)Sole source procurement of a used item from the open market may only be considered, provided that:
(1) The using agency recommends purchase; (2) condition of the item is verified by appropriate County official; and (3) price analysis justifies purchase when the following factors are considered: (a) new acquisition price; (b) current book value; and (c) maintenance costs.
Code 1982 SS 12-19 Sec. 2-518 Sole source procurement

The County Council may by resolution, exempt specific supplies or services from the purchasing procedures required in the Code. The following supplies and services shall be exempt from the purchasing procedures required in this division; however, the Purchasing Director for just cause may limit or withdraw any exemption provided for in this section. (1) Works of art for museum and public display (2) Published books, library books, maps, periodicals, technical pamphlets (3) Copyrighted educational films, filmstrips, slides and transparencies (4) Postage stamps and postal fees (5) Professional dues, membership fees and seminar registration fees (6) Medicine and drugs (7) Utilities including gas, electric, water and sewer (8) Advertisements in professional publications or newspapers (9) Fresh fruit, vegetables, meats, fish, milk, bread and eggs (10) Oil company credit cards (11) Articles for commercial sale by all governmental bodies
Code 1982 SS 12-14 Ord. No. 2000-1 S 1, 1-1-0-2000 Sec. 2-514 Exemption from procedures

Notwithstanding any other section of this division, the Purchasing Director may make or authorize others to make emergency procurements of supplies, services, or construction items when there exists a threat to the functioning of county government; for the preservation or protection of property; or for the health, welfare or safety of any person, provided that such emergency procurements shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file. As soon as practicable, a record of each emergency procurement shall be made and shall set forth the contractor's name, the amount and type of the contract, a listing of the items procured under the contract, and the identification number of the contract file.
Code 1982 SS 12-20 Sec. 2-519 Emergency procurements

Requesting Department: GIS Requested Account Code: 10001152-51250

Description of Requested Services
Image Library

Please provide a listing of the items purchased, if additional pages are necessary please attach to this form:
licensed images, software, and training

Cost of Requested Services: $75,270.00

Requested Vendor Name: Pictometry

Requested Vendor Address: 100 Town Centre Drive Suite A Rochester NY 14623

Requested Vendor Phone Number: 585.486.0093 Requested Vendor Email Address:

Type of Service Requested (Please check one) Construction ☐ Services ☑ Supply/Good ☐

Please attach any documentation provided by the vendor that provides back up for the claims in this document.

Non-Competitive Purchases Form

Please select a reason below as to why this is a non-competitive purchase and provide a brief explanation.

☐ *It is not possible to obtain competition. There is only one source available for the supply, service, or construction item.*

☐ *The procurement is for a used item from the open market. The item may only be considered if, (1) the using agency recommends purchase, (2) condition of the item is verified by appropriate County official, (3) Price analysis justifies purchase when the following factors are considered: (a) new acquisition price; (b) current book value; and (c) maintenance costs.*

☑ *The item is a single source purchase. Other sources may be available but purchases are directed to one source because of factors unique to Beaufort County. Please select an option below:*

- ☐ *Standardization*
- ☑ *Warranty*
- ☐ *Other, if selected please specify below.*

_____

☐ *An emergency exists that threatens the functioning of County government.*

☐ *An emergency exists that threatens the preservation or protection of County property.*

☐ *An emergency exists that threatens the health, welfare or safety or any person within the County.*

What steps have been taken to verify that these features are not available elsewhere?

☐ Other brands/manufacturers were examined (please list names and contact information, and explain why they are not suitable for use by the County-attach additional pages as necessary):

_____

_____

☐ Other vendors were contracted (please list names and contact information and explain why those contacted did not meet the needs of the County-attach additional pages as necessary):

_____

_____

Requester Name: Shakeeya. Polite Requester Signature: Shakeeya Polite Date: 4/10/14

Department Head Name: Daniel R. Morgan Department Head Signature: D R Morgan Date: 4/10/14

Non-Competitive Purchases Form

For Purchasing Completion only:

Date Received in Purchasing Department: 04/15/04

☑ Reviewed by Purchasing Department for completeness

Date: 04/16/14

Reviewed by: [illegible]

Verified that this is the only source: Yes ☑ No ☐

Comments:

Purchasing Director or His Designee Approval Signature: [illegible]

Associated Purchase Orders Number:

Associated Contract Number:

FY15 Library Budget Presentation to County Council

April 21, 2014

On March 12, 2014 the Library Board of Trustees approved a FY15 budget which includes the following increases:

1) Materials - $253,577
2) Personnel - $159,352 (salary only)

Proposed Materials Budget includes books, eBooks, online electronic information, etc.

Proposed Personnel Requests

(salary only)

1) Teen Librarian (39,838)
2) Computer Lab Specialist (39,838)
3) Website Manager (39,838)
4) Library Systems Support Assistant (39,838)

Bluffton Library

Equalization of service South of the Broad

1) Teen Librarian
2) Computer Lab Specialist

System Services

Support increased technology functions

3) Library Website Manager
4) Library Systems Support Assistant

General Fund Revenues	FY 13 Actual	FY14 Budget	FY14 Projected	FY15 Proposed
	$97,257	$53,200	$83,878	$90,000

Expenditures	FY 13 Actual	FY14 Budget	FY14 Projected	FY15 Proposed
Personnel	$2,486,773	$2,803,631	$2,638,032	$2,709,928**
Purchased Serv.	$ 471,017	$ 463,785	$ 511,778	$ 572,910
Supplies	$ 330,905	$ 82,367	$ 70,256	$ 412,375
Capital	$ 0	$ 0	$ 0	$ 20,723
Subsidies	----	----	----	----
Contingency	----	----	----	----
Unclassified	----	----	----	----
Transfers Out	----	----	----	----
Total Expenditures	$3,582,831	$3,349,783	$3,220,066	$3,716,006
FTEs:	67.5	74.375		78.375

**Excludes current vacant positions and requested FY15 positions per Employee Services.

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
General Fund Revenues	$ 601,428	$ 602,020	$ 570,800	$ 594,375
Expenditures				
Personnel	632,962	674,152	674,152	679,762
Purchased Services	33,882	44,061	41,500	44,992
Supplies	7,183	9,000	8,000	8,300
Capital				
Subsidies				
Contingency				
Unclassified				
Transfers Out[1]				
Total Expenditures	$ 674,027	$ 727,213	$ 723,652	$ 733,054

FTEs: 13.5

1 - Please provide detail as to what special revenue funds the transfers are being made to.

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
General Fund Revenues	$ 331,286	$ 300,000	$ 300,000	$ 275,000
Expenditures				
Personnel	494,931	495,334	495,334	533,170
Purchased Services	358,512	314,600	359,550	348,800
Supplies	205,855	143,000	181,500	155,000
Capital	9,115	3,000	-	17,900
Subsidies	-	-	-	-
Contingency	-	-	-	-
Unclassified	15,206	11,430	15,000	11,430
Transfers Out1	-	-	-	-
Total Expenditures	$ 1,083,619	$ 967,364	$ 1,051,384	$ 1,066,300

FTEs:

1 - Please provide detail as to what special revenue funds the transfers are being made to.

UNIVERSITY OF
SOUTH CAROLINA
BEAUFORT

JANE T. UPSHAW
CHANCELLOR

March 14, 2015

Mr. Bryan Hill
Deputy County Administrator
Beaufort County
P. O Drawer 1228
Beaufort, SC 29901-1228

Dear Mr. Hill:

Please accept this correspondence as the University of South Carolina Beaufort's budget request for FY 2014-2015 for Beaufort County.

The University of South Carolina Beaufort Campus requests continuation of the current $2 million recurring allocation for the FY 2014-2015. Additionally, USC Beaufort requests that the $125,000 of one-time funds allocated for FY 2013-2014 become part of the recurring allocation to USC Beaufort for FY 2014-2015 for continued academic program growth.

One of the greatest challenges that we face at USCB is the lack of scholarships to be used to attract the best students locally. We are in a competitive higher education environment. Older more established baccalaureate institutions provide scholarships to local students so that upon graduation these students are connected to the region more permanently. Therefore, USCB is proposing a collaboration with Beaufort County to provide this opportunity for local students in our county. USC Beaufort proposes that Beaufort County provide recurring funds in the amount of $500,000 annually to allow USCB to implement a scholarship program aimed at retaining Beaufort County's best and brightest here at USCB. This scholarship program would target Beaufort County's many talented and remarkable students and would provide incentive for these students to remain here rather than go elsewhere for their college experience. This funding would be an excellent investment in the future of Beaufort County and would also have direct impact on Beaufort County residents. Students who remain in the County for their higher education are more likely to get jobs here and reside here for the future.

The scholarship would be a win-win for Beaufort, USCB, and most importantly, our Beaufort County residents. Beaufort County would be given appropriate recognition in the naming, marketing and award of this scholarship program.

ONE UNIVERSITY BOULEVARD • BLUFFTON, SOUTH CAROLINA 29909
843/208-8242 • FAX 843/208-8299 • E-MAIL JUPSHAW@GWM.SC.EDU

AN EQUAL OPPORTUNITY INSTITUTION

Included with this request is USC Beaufort's Revenue and Expense Budgets for the current year as well as FY 2015 projections as they are estimated at this time. Also included are the most recent financial statements for USC Beaufort and the Beaufort-Jasper Higher Education Commission.

I look forward to meeting with you and the members of County Council to discuss the merits of this request. Thank you for the support you continue to provide USC Beaufort.

Sincerely,

Jane T. Upshaw, Ph.D.

cc: Mr. Gary Kubic

USC Beaufort Revenue Budget

	FY 2014 Total Revenue Budget	FY 2015 Projected Revenue Budget	FY 2015 Beaufort County Request
State Appropriation	2,648,495	2,648,495	0
One-time State additional	0		0
HW&M Parity Adjustment *	0	200,000	0
Tuition & Fees **	13,360,336	14,032,224	0
Beaufort County Allocation via BJHEC	2,125,000	2,125,000	2,625,000
Other/transfers	616,005	130,070	0
Total Revenue	**18,749,836**	**19,135,789**	**2,625,000**

* Recommended – not approved

** Based on 3% Tuition Increase not approved

USC Beaufort Expense Budget

	FY 2014 Total Expense Budget	FY 2014 County Portion	FY 2015 Proposed Expense Budget	FY 2015 Beaufort County Request
Salaries	10,685,788	0	11,317,809	0
Fringe Benefits	3,102,696	0	3,733,562	0
Health Promotions/ Secondary Math Ed		125,000	0	125,000
Beaufort County Resident Scholarship Program				500,000
Other operating Expenses	4,961,352	2,000,000	4,868,057	2,000,000
Total Expenses	**18,749,836**	**2,125,000**	**19,919,428**	**2,625,000**

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2013

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

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elliott davis

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 of the University of South Carolina - Beaufort (the Campus), a campus of the University of South Carolina (the University), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Campus' 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 financial statement 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 opinion.

Opinion

As discussed in Note 1, the financial statements of the Campus are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the University that is attributable to the transactions of the Campus. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Campus as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the accompanying 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 December 2, 2013, on our consideration of the Campus' 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 Campus' internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
December 2, 2013

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina - Beaufort (the Campus) is pleased to present its financial statements for the fiscal year 2013. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2013, with comparative information for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2013 and 2012 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.

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 Campus, the results of operations, and cash flows of the Campus 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 Campus' net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Campus' 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, and net position of the Campus 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 Campus. 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
- *Liabilities* - What we owe to others and have collected from others before we have provided the service
- *Net Position* - The difference between assets and liabilities

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

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the institution. 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 Campus' permanent endowment funds and are 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.

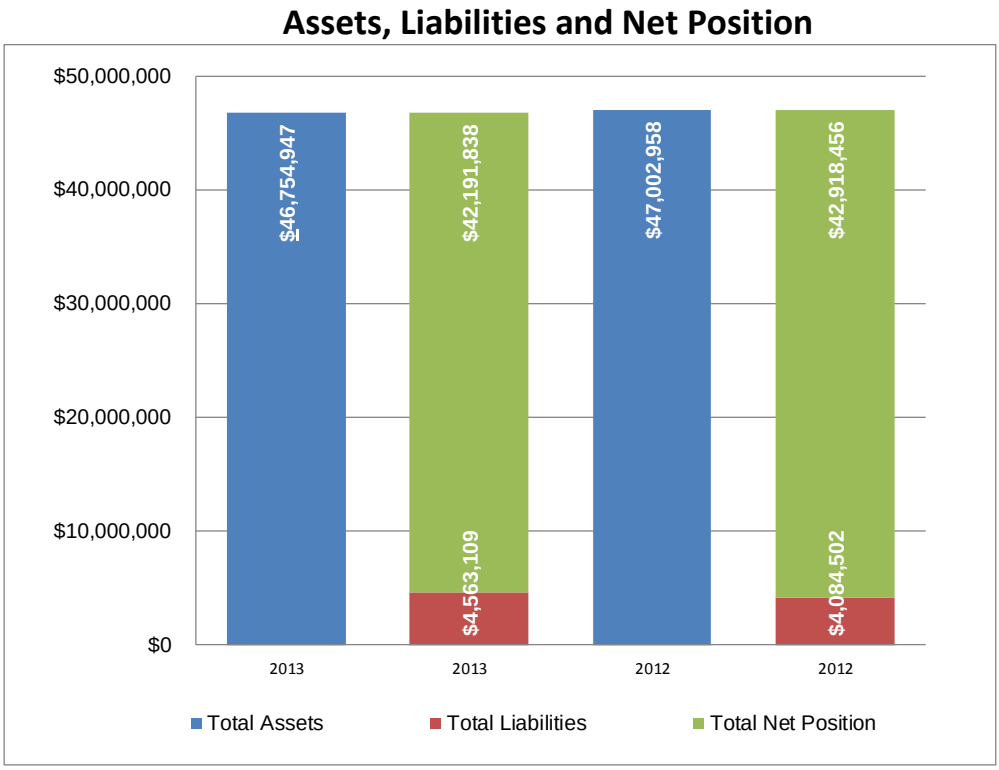
Summary of Net Position

Assets	**2013**	**2012**	**Increase/ (Decrease)**	**Percent Change**
Current Assets	$ 7,149,670	$ 6,850,243	$ 299,427	4.37%
Capital Assets, Net	39,526,277	40,073,715	(547,438)	-1.37%
Other Noncurrent Assets	79,000	79,000	-	0.00%
Total Assets	46,754,947	47,002,958	(248,011)	-0.53%
Liabilities				
Current Liabilities	1,754,840	1,095,457	659,383	60.19%
Noncurrent Liabilities	2,808,269	2,989,045	(180,776)	-6.05%
Total Liabilities	4,563,109	4,084,502	478,607	11.72%
Net Position				
Net investment in capital assets	36,879,071	37,298,194	(419,123)	-1.12%
Restricted - nonexpendable	79,000	79,000	-	0.00%
Restricted - expendable	1,384,923	2,036,519	(651,596)	-32.00%
Unrestricted	3,848,844	3,504,743	344,101	9.82%
Total Net Position	**$ 42,191,838**	**$ 42,918,456**	**$ (726,618)**	**-1.69%**

- Total assets of the Campus decreased by approximately $248,000. Net capital assets decreased approximately $547,400 due to various capital purchases and annual depreciation throughout the year while current assets increased by approximately $299,400 due to the increase in unrestricted net position.

- Current liabilities increased approximately $659,300 primarily due to the timing of year end purchases.

- Net position of the Campus decreased during the year by approximately $726,600. The net decrease is due to the following:
  - Net investment in capital assets decreased by approximately $419,100 due to various capital purchases and annual depreciation throughout the year.
  - Expendable restricted net position decreased by approximately $651,600 due to the completion of the library 2nd floor project.
  - Unrestricted net position increased by approximately $344,100 due to an additional transfer for Palmetto College.



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. The 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 total 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 institutions, both operating and nonoperating, and the expenses paid by the institutions, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institutions.

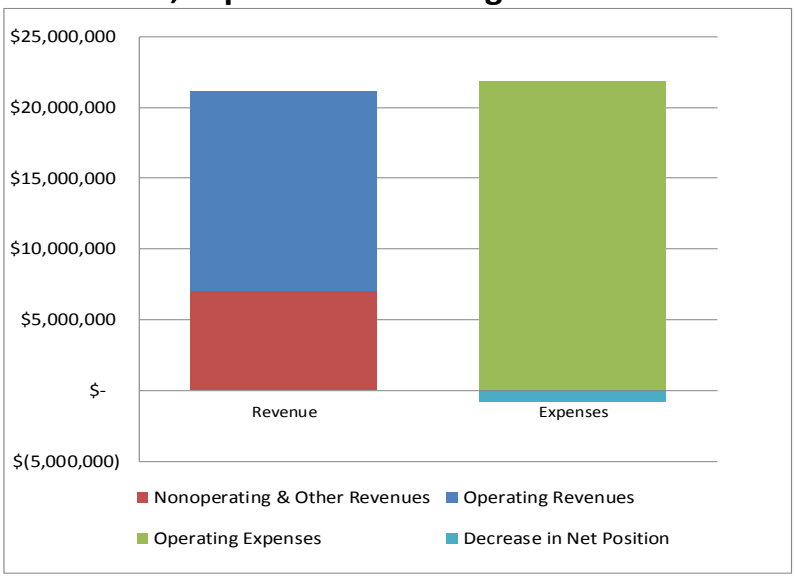
Operating revenues are received for providing goods and services to the various customers and constituencies of the institutions. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institutions. 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 - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

Operating Revenues:	**2013**	**2012**	**Increase/ (Decrease)**	**Percent Change**
Student tuition and fees	$ 10,111,015	$ 9,809,156	$ 301,859	3.08%
Federal grants and contracts	540,899	755,581	(214,682)	-28.41%
State grants and contracts	2,195,049	2,114,442	80,607	3.81%
Local grants and contracts	196,031	227,290	(31,259)	-13.75%
Nongovernmental grants and contracts	54,851	23,616	31,235	132.26%
Sales and services of educational and other activities	749,112	612,044	137,068	22.40%
Sales and services of auxiliary enterprises	14,670	79,605	(64,935)	-81.57%
Other fees	131,295	95,169	36,126	37.96%
Other operating revenues	109,161	474,461	(365,300)	-76.99%
Total operating revenues	14,102,083	14,191,364	(89,281)	-0.63%
Operating Expenses:				
Salaries and wages	11,546,602	10,842,155	704,447	6.50%
Fringe benefits	3,336,547	2,966,613	369,934	12.47%
Services and supplies	4,388,168	4,354,068	34,100	0.78%
Utilities	861,696	831,156	30,540	3.67%
Scholarships and fellowships	464,599	523,120	(58,521)	-11.19%
Depreciation expense	1,282,615	1,264,307	18,308	1.45%
Total operating expenses	21,880,227	20,781,419	1,098,808	5.29%
Operating loss	(7,778,144)	(6,590,055)	(1,188,089)	18.03%
Net nonoperating revenues	6,707,993	6,371,553	336,440	5.28%
Loss before other revenues & transfers	(1,070,151)	(218,502)	(851,649)	389.77%
Other revenues and transfers	343,533	455,464	(111,931)	-24.58%
Change in net position	(726,618)	236,962	(963,580)	-406.64%
Net position at beginning of year	42,918,456	42,681,494	236,962	0.56%
Net position at end of year	**$ 42,191,838**	**$ 42,918,456**	**$ (726,618)**	**-1.69%**

Revenues, Expenses and Changes in Net Position



Some highlights of the changes in the Statement of Revenues, Expenses and Changes in Net Position are as follows:

- The overall decrease of approximately $89,300 in total operating revenues was due to an approximate $301,900 increase in net student tuition and fees while other operating revenues decreased approximately $365,300. Student tuition and fee revenue, net of the scholarship allowance, increased primarily due to a 3.14% tuition increase at the Campus. The decrease in other operating revenue is attributable to an insurance settlement received in 2012 and no settlements received during fiscal year 2013.

- Operating expenses increased approximately $1.1 million and 5.29%. The majority of the increase is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment as well as the 3% state pay package and increases in retirement contributions and employer health insurance.

- Net nonoperating revenues increased approximately $336,400 due to additional state funds for deferred maintenance and technology initiatives.

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 institution 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.

- *Non-Capital Financing Activities* - the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes.

- *Capital and Related Financing Activities* - the cash used for the acquisition and construction of capital and related items.

- *Investing Activities* - the purchases, proceeds, and interest received from investing activities.

- *Reconciliation* - reconciles the net cash provided by (used for) to the operating income (loss) reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, the Campus did not have any major capital projects started or completed.

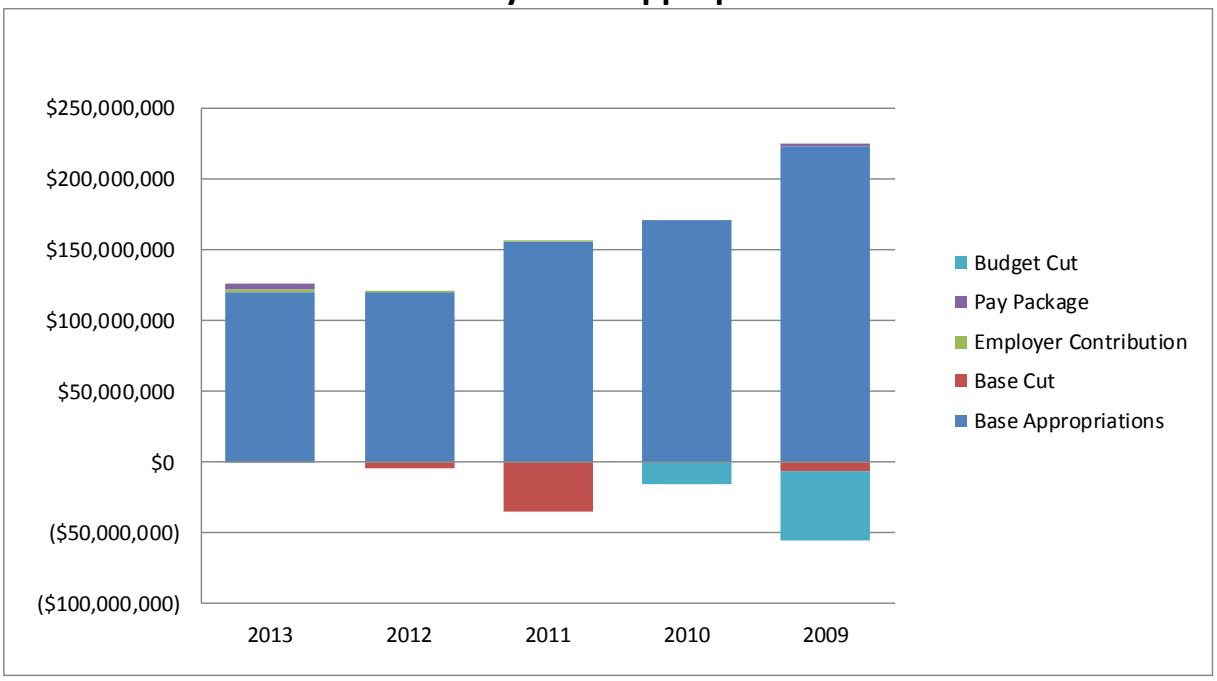
The Campus' indebtedness consists of bonds payable of $2.5 million and notes payable of $6,896.

ECONOMIC OUTLOOK

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campus' sustained financial performance despite significant reductions in state appropriations from 2008 to 2012. The Campus received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases.

The State finished the 2013 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. In addition, because of the surplus revenues, $68.3M was available for transfer to the State's contingency reserve fund. The Campus is a beneficiary of the fourth straight year of state surpluses, as non-recurring funds totaling $61,899 were made available for deferred maintenance projects in 2014. The Campus also receives new, recurring state funding to address the parity issue that compares state funding per FTE student with the other comprehensive institutions. The Campus' share of these funds going forward is $1,200,000.

University State Appropriations



UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Net Position
June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	$ 4,706,603
Restricted - cash and cash equivalents	1,772,830
Accounts receivable, net	514,194
Prepaid items	156,043
Total current assets	7,149,670
Noncurrent assets:	
Restricted - cash and cash equivalents	79,000
Capital assets, net of accumulated depreciation	39,526,277
Total noncurrent assets	39,605,277
Total assets	46,754,947
LIABILITIES	
Current liabilities:	
Accounts payable	217,220
Accrued interest payable	37,176
Accrued payroll and related liabilities	73,246
Accrued compensated absences - current portion	294,009
Long-term debt - current portion	121,416
Deferred revenues	431,581
Deposits	9,567
Funds held for others	570,625
Total current liabilities	1,754,840
Noncurrent liabilities:	
Accrued compensated absences	282,479
Long-term debt	2,525,790
Total noncurrent liabilities	2,808,269
Total liabilities	4,563,109
NET POSITION	
Net investment in capital assets	36,879,071
Restricted for:	
Nonexpendable	79,000
Expendable	
Scholarships, research, instruction, and other	391,367
Loans	314
Capital projects	975,174
Debt service	18,068
Unrestricted	3,848,844
Total net position	**$ 42,191,838**

See accompanying notes to the financial statements which are an integral part of these statements

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013

OPERATING REVENUES	
Student tuition and fees ($232,279 pledged for bonds)	$ 16,022,577
Less scholarship allowance	(5,911,562)
Federal grants and contracts	540,899
State grants and contracts	2,195,049
Local grants and contracts	196,031
Nongovernmental grants and contracts	54,851
Sales and services of educational and other activities	749,112
Sales and services of auxiliary enterprises	14,670
Other fees	131,295
Other operating revenues	109,161
Total operating revenues	14,102,083
OPERATING EXPENSES	
Salaries and wages	11,546,602
Fringe benefits	3,336,547
Services and supplies	4,388,168
Utilities	861,696
Scholarships and fellowships	464,599
Depreciation expense	1,282,615
Total operating expenses	21,880,227
Operating loss	(7,778,144)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	1,778,135
Federal grants	3,113,358
Gifts	1,909,592
Investment income	13,224
Endowment income	2,203
Loss on disposal of capital assets	(2,453)
Interest on capital asset related debt	(106,066)
Net nonoperating revenues	6,707,993
Loss before other revenues and transfers	(1,070,151)
State capital appropriations	30,892
Capital grants and gifts	(152,685)
Transfers from other campuses, net	465,326
Change in net position	(726,618)
NET POSITION, BEGINNING OF YEAR	42,918,456
NET POSITION, END OF YEAR	**$ 42,191,838**

See accompanying notes to the financial statements which are an integral part of these statements

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Cash Flows
For the year ended June 30, 2013

OPERATING ACTIVITIES		
Student tuition and fees	$	10,091,813
Research grants and contracts		2,930,651
Sales and services of educational and other activities		727,571
Sales and services of auxiliary enterprises		14,670
Inflows from federal direct student loans		9,888,032
Outflows from federal direct student loans		(9,846,615)
Payments to employees for services		(11,457,074)
Payments to employees for benefits		(3,332,965)
Payments to suppliers		(5,135,643)
Payments to students for scholarships and fellowships		(464,599)
Other receipts		248,856
Inflows from agency funds		3,142,505
Outflows from agency funds		(2,742,626)
Net cash used for operating activities		(5,935,424)
NONCAPITAL FINANCING ACTIVITIES		
State appropriations		1,778,135
Federal grants		3,113,358
Gifts		1,909,592
Transfers from other campuses, net		465,326
Net cash provided by noncapital financing activities		7,266,411
CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations		30,892
Capital grants and gifts		(30,891)
Purchase and construction of capital assets		(894,847)
Principal paid on capital asset related debt		(120,793)
Interest paid on capital asset related debt		(114,137)
Net cash used for capital and related financing activities		(1,129,776)
INVESTING ACTIVITIES		
Investment income		20,598
Endowment income		2,203
Net cash provided by investing activities		22,801
Net increase in cash and cash equivalents		224,012
Cash and cash equivalents, beginning of year		6,334,421
Cash and cash equivalents, end of year	**$**	**6,558,433**
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$	4,706,603
Restricted - cash and cash equivalents, current		1,772,830
Restricted - cash and cash equivalents, noncurrent		79,000
	$	**6,558,433**

See accompanying notes to the financial statements which are an integral part of these statements

(Continued)

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Cash Flows
For the year ended June 30, 2013

Reconciliation of net operating loss to net cash used for operating activities		
Operating loss	$	(7,778,144)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense		1,282,615
Change in current assets and liabilities		
Accounts receivable, net		(42,796)
Prepaid items		(39,993)
Accounts payable		154,214
Accrued payroll		12,170
Accrued benefits		3,582
Accrued annual leave and related liabilities		77,358
Deferred revenues		(54,126)
Deposits		8,400
Funds held for others		441,296
Net cash used for operating activities	**$**	**(5,935,424)**
NONCASH TRANSACTIONS		
Loss on disposal of capital assets, net	**$**	**(2,453)**

See accompanying notes to the financial statements which are an integral part of these statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina - Beaufort (the Campus) is a State-supported, coeducational institution of higher education and is one of eight campuses of the University of South Carolina (the University). The Campus' 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.

The Campus is part of the University system. As the result of the State of South Carolina's (the State) reevaluation of the University as part of the State's financial reporting entity, the University will be reflected as a discretely presented component unit for fiscal year 2013**.** As a discretely presented component unit of the State of South Carolina, 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 Campus is considered to be engaged only in business-type activities. Accordingly, the Campus' 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 Campus considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Campus participates 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.

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 Campus reports 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 Campus' special deposit accounts is posted at the end of each month based on the percentage of the Campus' 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.

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 Campus' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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 rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Noncurrent Cash - Noncurrent cash consists of permanently endowed funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net position.

Capital Assets - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campus follows 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 Campus capitalizes 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 Campus capitalizes, 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. The Campus had no capitalized interest for fiscal year 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Revenues and Deposits - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

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

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of bonds payable; and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Position - Components of the Campus' net position are classified as follows:

Net investment in capital assets: This represents the Campus' 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 Campus is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Classification of Revenues - The Campus has classified its 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 Campus' 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 Campus; and
(4) grants and contracts that are essentially the same as contracts for services that finance programs the Campus would not otherwise undertake.

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

Scholarship Allowance - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campus, 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 Campus' financial statements.

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

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 Campus had no rebatable arbitrage liability at June 30, 2013.

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 Campus has a total return policy for authorizing and spending endowment income.

At June 30, 2013, $37,235 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other,* represented net appreciation of donor-restricted endowments.

NOTE 2 - CASH AND CASH EQUIVALENTS

Most deposits of the Campus 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 within the notes to the statement of net position amounts:

Statement of Net Position		**Notes**	
Cash and cash equivalents (current)	$ 4,706,603	Cash on hand	$ 3,904
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	6,554,529
Debt service	55,043		
Scholarship, research, instruction, and other	477,887		
University administered loans	314		
Capital projects	1,239,586		
	1,772,830		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	79,000		
	$ 6,558,433		**$ 6,558,433**

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, 2013, $52,870 of the $6,554,529 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student and sponsors	$	356,671
Federal grants and contracts		130,662
State grants and contracts		38,264
Local grants and contracts		78,953
Non-governmental grants and contracts		1,944
Accrued interest		5,060
		611,554
Less allowance for doubtful accounts		(97,360)
Accounts receivable, net	**$**	**514,194**

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

NOTE 4 - CAPITAL ASSETS

	June 30, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated				
Land and improvements	$ 872,026	$ -	$ -	$ 872,026
Construction in progress	6,305,414	420,966	447,960	6,278,420
Total capital assets not being depreciated	7,177,440	420,966	447,960	7,150,446
Other capital assets				
Land improvements	6,220,370	447,961	-	6,668,331
Buildings and improvements	36,304,457	-	-	36,304,457
Machinery, equipment and other	1,394,320	289,294	36,997	1,646,617
Vehicles	203,846	27,369	-	231,215
Total capital assets at historical cost	44,122,993	764,624	36,997	44,850,620
Less accumulated depreciation for:				
Land improvements	1,196,494	193,326	-	1,389,820
Buildings and improvements	8,978,678	938,432	-	9,917,110
Machinery, equipment and other	894,716	135,698	34,544	995,870
Vehicles	156,830	15,159	-	171,989
Total accumulated depreciation	11,226,718	1,282,615	34,544	12,474,789
Other capital assets, net	32,896,275	(517,991)	2,453	32,375,831
Capital assets, net	**$ 40,073,715**	**$ (97,025)**	**$ 450,413**	**$ 39,526,277**

NOTE 5 - PENSION PLANS

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, Post Office Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

NOTE 5 - PENSION PLANS, Continued

South Carolina Retirement System - The majority of employees of the Campus are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). 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. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable 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 qualify for disability annuity benefits provided they have a minimum of eight years of credited service. 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.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campus' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death	
Ended	Rate	Contribution	Rate	Contribution
2013	10.450%	$648,000	0.150%	$9,000
2012	9.385%	$555,000	0.150%	$9,000
2011	9.240%	$529,000	0.150%	$8,000

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. 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.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 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 compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay 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. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

NOTE 5 - PENSION PLANS, Continued

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campus' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death		Accidental Death	
Ended	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	$ 47,000	0.200%	$ 800	0.200%	$ 800
2012	11.385%	$ 40,000	0.200%	$ 700	0.200%	$ 700
2011	11.130%	$ 35,000	0.200%	$ 600	0.200%	$ 600

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the Campus may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately $416,000 (excluding the surcharge) from the Campus as employer and approximately $279,000 from its employees as plan members.

Funding Policies - Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Campus' liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Campus recognizes no contingent liability for unfunded costs associated with participation in the plans.

NOTE 5 - PENSION PLANS, Continued

The amounts paid by the University for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

For the fiscal year ending June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Campus will be required to recognize a portion of the unfunded pension liability of the cost sharing plans.

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 Campus contributes 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 statue to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately $481,000 and $419,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, 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, 2013 and 2012. The Campus recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $6,000 and $6,000 for the years ended June 30, 2013 and 2012, respectively.

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

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

The Campus participates 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 Campus had outstanding commitments under construction contracts of $32,888 for capital and $47,261 for noncapital projects. The Campus anticipates 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 Campus has no noncancelable operating leases with remaining terms of more than one year. Total payments for a year to year operating lease were $21,457 for fiscal year 2013. In the current fiscal year, the Campus incurred expenses of $69,632 for office copier contingent rentals on a cost per copy basis. The campus has two real property operating leases which can be renewed on an annual basis. The amount committed under these leases at June 30, 2013 was $1,223.

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2013 Balance	Debt Retired in Fiscal Year 2013
State Institution Bonds					
Series 2011E	$ 2,675,000	2.25% to 5.0%	03/01/31	$ 2,485,000	$ 95,000
Series 2012A Refunding	51,000	4.0% to 5.0%	04/01/16	39,000	12,000
Subtotal bonds payable				2,524,000	107,000
Plus unamortized bond premium				116,310	7,522
Total Bonds Payable				**$ 2,640,310**	**$ 114,522**

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campus' debt service limit on bonded indebtedness for the preceding year were $354,094 which results in a legal annual debt service at June 30, 2013 of $318,685. The annual debt service payments for the fiscal year were $221,136. Tuition revenue pledged in fiscal year 2013 was $232,279 for state institution bonds.

The Campus believes it is in compliance with all related bond covenants of its issued debt.

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

	Principal	Interest	Total
State Institution Bonds			
2014	$ 107,000	$ 111,711	$ 218,711
2015	113,000	108,381	221,381
2016	119,000	104,731	223,731
2017	105,000	101,669	206,669
2018	110,000	98,519	208,519
2019-2023	615,000	417,844	1,032,844
2024-2028	790,000	250,425	1,040,425
2029-2031	565,000	57,250	622,250
Total	**$ 2,524,000**	**$ 1,250,530**	**$ 3,774,530**

Notes Payable - Notes payable consisted of the following:

Note payable for energy efficiency projects, dated January 2011, payable in annual installments of $6,896 at no interest, matures January 2014.	**$ 6,896**

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2014	**$ 6,896**	**$ -**	**$ 6,896**

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
Bonds Payable:					
State Institution Bonds	$ 2,631,000	$ -	$ 107,000	$ 2,524,000	$ 107,000
Unamortized Bond Premiums	123,832	-	7,522	116,310	7,520
Total Bonds Payable	2,754,832	-	114,522	2,640,310	114,520
Notes Payable	20,689	-	13,793	6,896	6,896
Total Bonds and Notes Payable	**$ 2,775,521**	**$ -**	**$ 128,315**	**$ 2,647,206**	**$ 121,416**
Accrued Compensated Absences	$ 499,130	$ 331,409	$ 254,051	$ 576,488	$ 294,009

Additional information regarding bonds payable is included in Note 9.

NOTE 11 - RELATED PARTY

The Beaufort Jasper Higher Education Commission (the Commission) is a separately chartered legal entity which does not meet the criteria established by GASB Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14, to be treated as a component unit of the Campus. While it is not financially accountable to the Campus, the Commission exists primarily to provide financial assistance and other support to the Campus and the educational programs. The activities of the Commission are not included in the Campus' financial statements.

The Commission was created by Act 59 in the 2004 session of the General Assembly of South Carolina. The Commission is composed of nine members who are appointed by the Governor on the recommendation of a majority of the Beaufort and Jasper County Legislative Delegation. The Commission's purpose is to contract with institutions of higher education for the establishment and operation of education centers in Beaufort and Jasper counties and it is empowered to make binding agreements for the furnishing of suitable facilities and accommodations for the education centers. The Commission receives an annual appropriation from Beaufort and Jasper Counties to accomplish these objectives. During the year ended June 30, 2013, a gift of $1,782,000 was paid from the Commission to the University of South Carolina Beaufort (USC Beaufort). Of this amount, $112,357 was reimbursement of Commission salaries paid by USC Beaufort, $131,000 was development reimbursement, and the remaining funds were gifted for general operating purposes. The Commission allows use of its land and buildings for USC Beaufort housing, dining, and bookstore services. At June 30, 2013, the Commission had a net position of $8,007,635.

NOTE 12 - RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have never exceeded the Campus' insurance coverage.

NOTE 12 - RISK MANAGEMENT, Continued

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

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

NOTE 13 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 5,297,834	$ 1,504,429	$ 861,723	$ 1,709	$ -	$ -	$ 7,665,695
Research	359,974	87,593	96,547	-	90	-	544,204
Public service	363,434	93,280	190,675	-	-	-	647,389
Academic support	1,831,340	570,900	977,816	-	140	-	3,380,196
Student services	1,643,311	487,595	1,124,409	289	2,256	-	3,257,860
Institutional support	979,475	270,900	301,140	-	28	-	1,551,543
Operation & plant maintenance	1,071,234	321,850	833,283	859,698	-	-	3,086,065
Auxiliary enterprises	-	-	2,575	-	-	-	2,575
Scholarships and fellowships	-	-	-	-	462,085	-	462,085
Depreciation	-	-	-	-	-	1,282,615	1,282,615
Total operating expenses	**$ 11,546,602**	**$ 3,336,547**	**$ 4,388,168**	**$ 861,696**	**$ 464,599**	**$ 1,282,615**	**$ 21,880,227**

elliott davis

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, the financial statements of the business-type activities of the University of South Carolina - Beaufort (the Campus), a campus of the University of South Carolina (the University), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Campus' 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 Campus' internal control. Accordingly, we do not express an opinion on the effectiveness of the Campus' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Elliott Davis, LLC

Columbia, South Carolina
December 2, 2013

UNIVERSITY OF SOUTH CAROLINA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2013

UNIVERSITY OF SOUTH CAROLINA

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elliott davis

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 (the University), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's 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 University of South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the USC Upstate Foundation; the USC Upstate Capital Development Foundation; and the Educational Foundation of the University of South Carolina - Lancaster. These financial statements represent approximately 89 percent, 93 percent, and 97 percent, respectively, of the assets, net position/assets, and revenues of the University's 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 University are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Carolina 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 USC Upstate Foundation; the USC Upstate Capital Development Foundation; and the Educational Foundation of the University of South Carolina - Lancaster were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 financial statement 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 University as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the accompanying 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, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Non-Capital and Capital State Appropriations as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2013, on our consideration of the University's 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 University's internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
October 10, 2013

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Management's Discussion and Analysis provides an overview and analysis of the University of South Carolina's financial activities for the fiscal year ended June 30, 2013, with comparative information for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2013 and 2012 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 primary institution, the University of South Carolina (the University). This discussion will not include the discretely presented component units, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, the University of South Carolina's Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, the Upstate Foundation, the Upstate Capital Development Foundation, and the Educational Foundation of the University of South Carolina - Lancaster.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities.* The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University 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 University's net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's 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, and net position of the University 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 University. 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
- *Liabilities* - What we owe to others and have collected from others before we have provided the service
- *Net Position* - The difference between assets and liabilities

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

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes 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 institution. Net position is divided into the following three major categories:

- *Invested in capital assets, net of related debt* - 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 University's permanent endowment funds and are 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.

Summary of Net Position

Assets	**2013**	**RECLASSIFIED 2012***	**Increase/ (Decrease)**	**Percent Change**
Current Assets	$ 615,105,939	$ 642,142,343	$ (27,036,404)	-4.21%
Capital Assets, Net	1,176,896,081	1,120,749,553	56,146,528	5.01%
Other Noncurrent Assets	125,094,367	124,925,420	168,947	0.14%
Total Assets	1,917,096,387	1,887,817,316	29,279,071	1.55%
Liabilities				
Current Liabilities	117,084,507	118,571,948	(1,487,441)	-1.25%
Noncurrent Liabilities	585,991,584	566,005,658	19,985,926	3.53%
Total Liabilities	703,076,091	684,577,606	18,498,485	2.70%
Net Position				
Invested in capital assets, net of related debt	671,052,507	668,124,212	2,928,295	0.44%
Restricted - nonexpendable	73,766,341	72,135,427	1,630,914	2.26%
Restricted - expendable	121,396,245	101,849,956	19,546,289	19.19%
Unrestricted	347,805,203	361,130,115	(13,324,912)	-3.69%
Total Net Position	**$ 1,214,020,296**	**$ 1,203,239,710**	**$ 10,780,586**	**0.90%**

*Reclassifications - Prior period amounts have been reclassified to conform to current period presentation.

- Total assets of the University increased by $29.3 million. Current assets decreased $27 million while capital assets increased by $56.1 million. This overall increase in total assets is due to the completion of several athletic facility projects, residence hall renovations and purchase and significant upgrades to campus technology systems during fiscal year 2013. Also, the University wrote off the remaining net book value of $14 million for the Biomass Facility due to impairment.

- The increase in liabilities of $18.5 million is primarily attributable to an increase in long term debt. Housing revenue bonds in the amount of $37.2 million were issued to fund the renovation of more than 540 beds in the Women's Quad at USC Columbia and the purchase of a residence hall facility at the USC Upstate campus. The University paid $17.4 million in principal payments on outstanding bonds during fiscal year 2013.

Assets, Liabilities and Net Position

The net position of the University increased during the year by $10.8 million. The increase is driven by the following:

- $2.9 million increase in invested in capital assets, net of related debt - Invested in capital assets, net of related debt, shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets, only the debt issued to finance the University's capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Invested in capital assets, net of related debt, increased by $2.9 million due to the completion of significant upgrades to campus technology systems, residence hall renovations and purchase and several athletic facility projects. The University also wrote off the remaining net book value of $14 million in capital assets due to the impairment of the Biomass Facility.

- $19.5 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. Expendable restricted net position increased by $19.5 million due to an increase in debt service of $3.4 million and an increase in reserve for capital projects of $16.6 million.

- $13.3 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from University operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific University activities including academic and research programs, capital projects and significant upgrades to the campus technology network. During fiscal year 2013, the University used unrestricted funding towards significant upgrades to campus technology systems.

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 total 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 institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

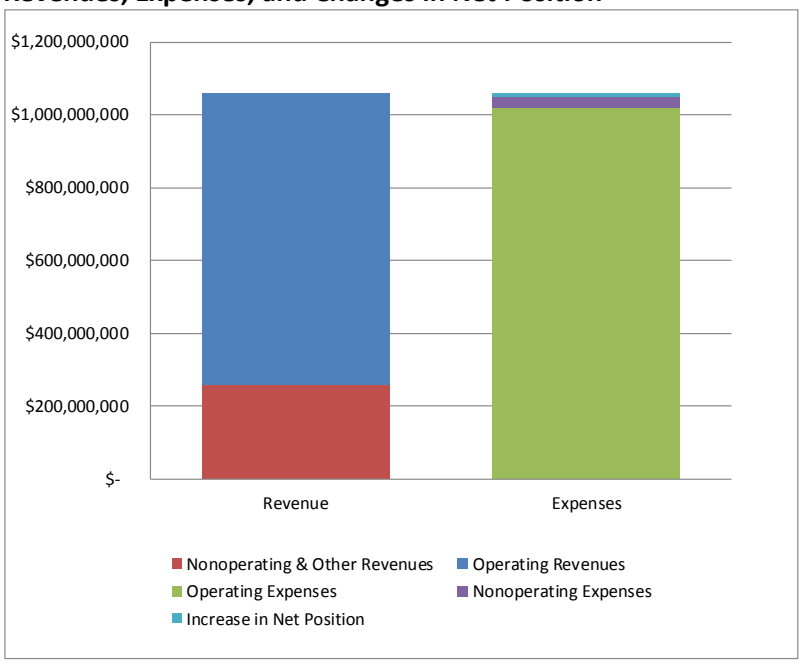
Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. 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
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	$ 614,877,690	$ 581,564,850	$ 33,312,840	5.73%
Less: scholarship allowance	(231,512,064)	(222,330,673)	(9,181,391)	4.13%
Federal grants and contracts	128,745,138	135,957,110	(7,211,972)	-5.30%
State grants and contracts	85,610,620	80,832,169	4,778,451	5.91%
Local grants and contracts	1,328,967	1,336,900	(7,933)	-0.59%
Nongovernmental grants and contracts	34,931,649	38,481,356	(3,549,707)	-9.22%
Sales and services of educational and other activities	27,262,728	26,499,787	762,941	2.88%
Sales and services of auxiliary enterprises	133,025,559	130,397,479	2,628,080	2.02%
Less: scholarship allowance	(4,804,751)	(5,182,465)	377,714	-7.29%
Interest collected on student loans	300,870	327,687	(26,817)	-8.18%
Other fees	5,981,759	5,967,471	14,288	0.24%
Other operating revenues	5,450,334	5,464,472	(14,138)	-0.26%
Total operating revenues	801,198,499	779,316,143	21,882,356	2.81%
Nonoperating Revenues:				
State appropriations	136,401,129	118,333,486	18,067,643	15.27%
Federal grants	52,618,573	53,320,445	(701,872)	-1.32%
Gifts	43,917,602	38,400,939	5,516,663	14.37%
Investment Income	2,464,792	7,822,640	(5,357,848)	-68.49%
Endowment Income	3,391,690	6,678,508	(3,286,818)	-49.21%
Total nonoperating revenues	238,793,786	224,556,018	14,237,768	6.34%
Total revenues	1,039,992,285	1,003,872,161	36,120,124	3.60%
Operating Expenses:				
Salaries and wages	524,812,195	499,071,052	25,741,143	5.16%
Fringe benefits	152,344,803	137,432,448	14,912,355	10.85%
Services and supplies	235,706,732	223,142,006	12,564,726	5.63%
Utilities	31,090,710	29,515,227	1,575,483	5.34%
Scholarships and fellowships	19,960,232	20,205,750	(245,518)	-1.22%
Depreciation expense	53,333,856	51,253,440	2,080,416	4.06%
Total operating expenses	1,017,248,528	960,619,923	56,628,605	5.90%
Nonoperating Expenses:				
Loss on disposals of capital assets	14,313,047	574,623	13,738,424	2390.86%
Interest on capital asset related debt	18,761,581	19,024,987	(263,406)	-1.38%
Total nonoperating expenses	33,074,628	19,599,610	13,475,018	68.75%
Total expenses	1,050,323,156	980,219,533	70,103,623	7.15%
Other revenues	21,111,457	17,916,874	3,194,583	17.83%
Increase in net position	10,780,586	41,569,502	(30,788,916)	-74.07%
Net position at beginning of year	1,203,239,710	1,161,670,208	41,569,502	3.58%
Net position at end of year	**$ 1,214,020,296**	**$ 1,203,239,710**	**$ 10,780,586**	0.90%

Revenues, Expenses, and Changes in Net Position



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

- A net $24.1 million increase in student tuition and fees and a $2.6 million increase in sales and services of auxiliary enterprises along with a $6 million decrease in grants and contracts were largely responsible for the overall $21.9 million increase in operating revenues. Student tuition and fee revenue, net of the scholarship allowance, increased by $24.1 million primarily due to a 3.14% tuition increase for all USC System campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 2.5% in full time equivalent students. For Columbia, the combined tuition and enrollment increase accounted for $17.7 million of the change. In 2013, the University added a second medical school campus and enrolled 53 students that generated $2 million in new tuition and fees. While enrollment at the Senior and Regional campuses remained constant, tuition and fee increases accounted for $4.4 million. Sales and services of auxiliary enterprises are primarily driven by athletics, including increased conference distribution and trademark and licensing revenue. Contracts and grants decreased due to reduced federal funding for direct loans and Federal Sequestration.

- Operating expenses increased $56.6 million, 5.9% over the prior year. The majority of the increase, approximately $40.7 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment as well as the 3% state pay package and increases in retirement contribution and employer health insurance. Services and supplies increased $12.6 million due to inflationary and enrollment increases and significant upgrades to campus technology systems. Depreciation expense increased $2.1 million due to the completion of several athletic facility projects and residence hall renovations.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, various projects on the Columbia campus were in progress including renovations to Petigru College and the Women's Quad dormitories, construction of the Darla Moore School of Business, and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including a new softball stadium.

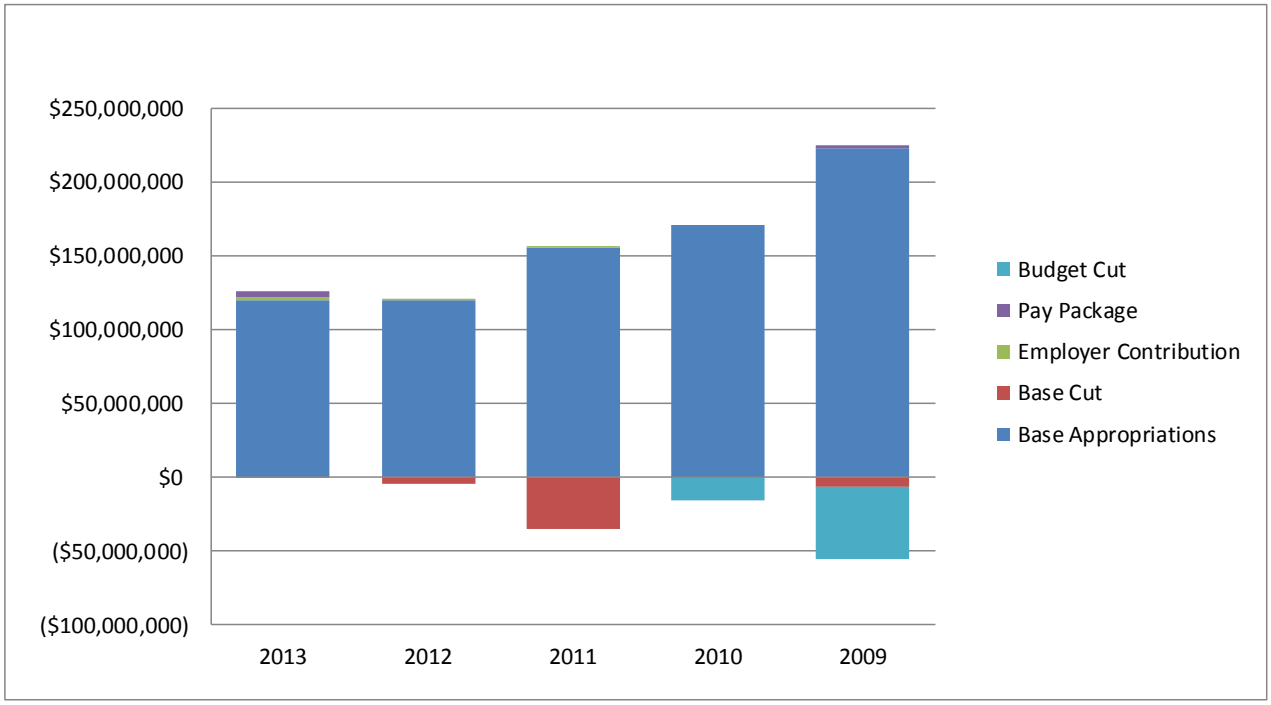
The University's indebtedness consists of bonds payable of $554.7 million and notes payable of $606,683. During the current year, $37.2 million in revenue bonds were issued to fund various capital projects. Due to several refundings in the prior year that took advantage of existing low interest rates, no bonds were refunded in the current year.

ECONOMIC OUTLOOK

The economic position of the University continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the University's sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The University system received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases, as well as new funds for a new targeted student program, Palmetto College, a virtual college that will provide higher education opportunities for students from all economic and geographic regions to earn a bachelor's degree near or from their own homes. The State has invested $5 million annually in this important initiative.

The State finished the 2013 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. In addition, because of surplus revenues, $68.3 million is available for transfer to the State's contingency reserve fund. The University is a beneficiary of the fourth straight year of state surpluses, with nearly $7 million in non-recurring state funds available for deferred maintenance projects in 2014. The University also receives new, non-recurring State funds allocated for the 2014 year including funding for the On Your Time Graduation Initiative, a program that recognizes that the traditional university academic calendar has become antiquated and inflexible for today's student, many times impeding timely degree completion, costing students more in tuition and student loans, and delaying employment in South Carolina's economy. By redefining the traditional university academic calendar, providing flexibility and maximizing assets, the University will provide a model for colleges and universities in the State and beyond her borders. Additionally, the Senior and Regional campuses receive new funds to address the base state funding per student inequities.

State Appropriations

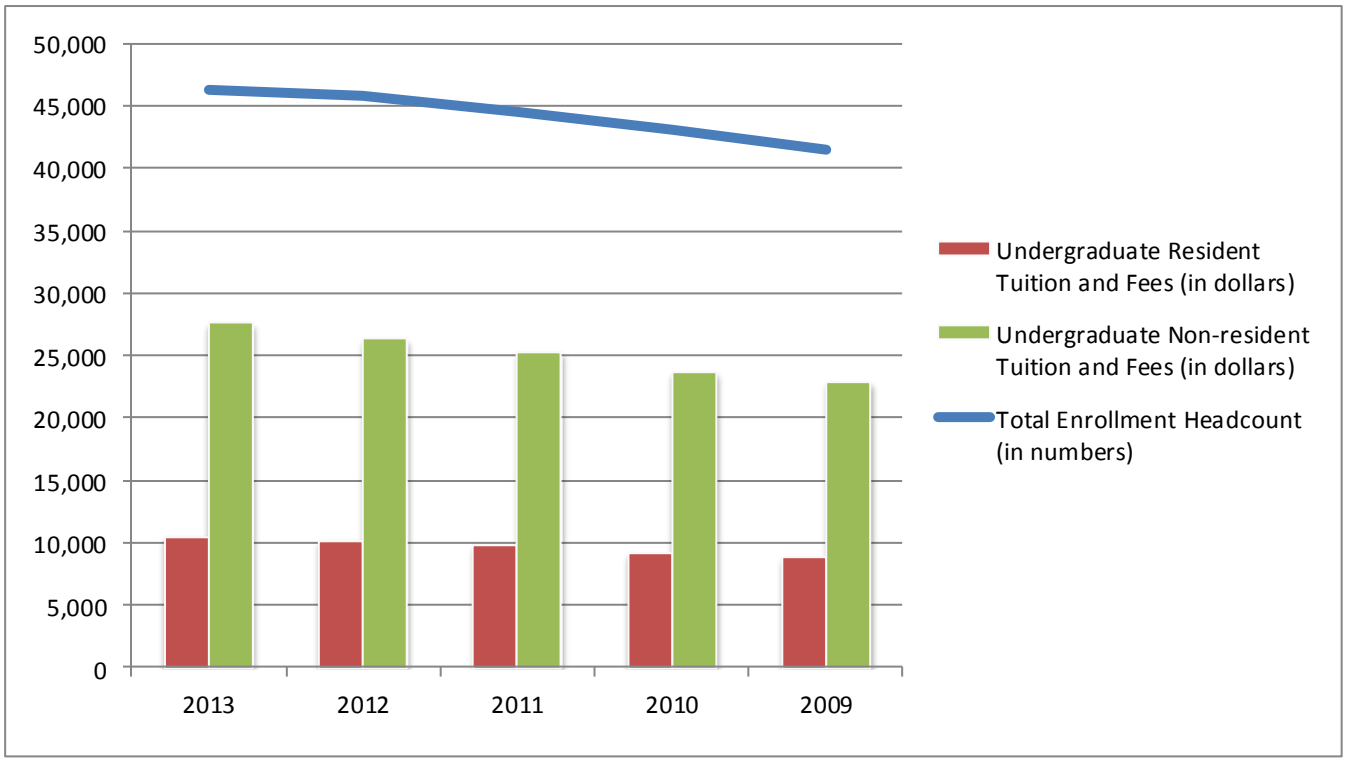


UNIVERSITY OF SOUTH CAROLINA
Management's Discussion and Analysis
(Unaudited)

The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2013 year are in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuitions for three 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 University remains strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2013 of more than 5,034 students. This entering class is also the most academically talented in the University's history with an average SAT score of 1206. The University continues to cultivate both student quality and access through the development of innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its second year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2013 semester 168 new students are enrolled in the Gamecock Gateway and 103 of students in the pilot year are now fully enrolled at USC Columbia.

University fundraising has increased by more than 38% in the last five years during the largest capital campaign in its history with a $1 billion goal. As of June 30, 2013 the University has raised $756.5 million with two years remaining. Research grant awards were $220.2 million in the 2013 fiscal year, an expected reduction of 8% from the prior year due to Federal Sequestration.

Enrollment and Tuition & Fees



UNIVERSITY OF SOUTH CAROLINA
Statement of Net Position
June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	$ 361,019,509
Restricted - cash and cash equivalents	183,901,593
Accounts receivable, net	52,161,846
Student loans receivable, current	3,228
Capital improvement bonds proceeds receivable	2,049,040
Inventories	2,935,401
Prepaid items	5,667,522
Funds due from others	7,367,800
Total current assets	615,105,939
Noncurrent assets:	
Restricted - cash and cash equivalents	88,456,629
Investments	4,279,903
Prepaid items	2,370,070
Notes receivable	9,419,288
Restricted - federal student loans receivable	18,047,353
Capital assets, net of accumulated depreciation	1,176,896,081
Other assets	2,521,124
Total noncurrent assets	1,301,990,448
Total assets	1,917,096,387
LIABILITIES	
Current liabilities:	
Accounts payable	23,957,260
Retainage payable - current portion	858,962
Accrued interest payable	3,910,464
Accrued payroll and related liabilities	14,653,998
Accrued compensated absences - current portion	16,037,292
Capital lease obligations - current portion	637,803
Long-term debt - current portion	20,155,334
Deferred revenues	32,585,058
Deposits	2,655,701
Other liabilities	504,718
Funds held for others	1,127,917
Total current liabilities	117,084,507
Noncurrent liabilities:	
Retainage payable	1,775,807
Accrued compensated absences	15,408,377
Federal loan liability	17,573,399
Capital lease obligations	16,059,423
Long-term debt	535,174,578
Total noncurrent liabilities	585,991,584
Total liabilities	703,076,091
NET POSITION	
Invested in capital assets, net of related debt	671,052,507
Restricted for:	
Nonexpendable	73,766,341
Expendable	
Scholarships, research, instruction, and other	23,867,093
Loans	2,863,850
Capital projects	70,191,555
Debt service	24,473,747
Unrestricted	347,805,203
Total net position	**$ 1,214,020,296**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013

OPERATING REVENUES	
Student tuition and fees ($29,362,601 pledged for bonds)	$ 614,877,690
Less: scholarship allowance	(231,512,064)
Federal grants and contracts	128,745,138
State grants and contracts	85,610,620
Local grants and contracts	1,328,967
Nongovernmental grants and contracts	34,931,649
Sales and services of educational and other activities	27,262,728
Sales and services of auxiliary enterprises ($20,854,997 pledged for bonds)	133,025,559
Less: scholarship allowance	(4,804,751)
Interest collected on student loans	300,870
Other fees ($1,694,772 pledged for bonds)	5,981,759
Other operating revenues	5,450,334
Total operating revenues	801,198,499
OPERATING EXPENSES	
Salaries and wages	524,812,195
Fringe benefits	152,344,803
Services and supplies	235,706,732
Utilities	31,090,710
Scholarships and fellowships	19,960,232
Depreciation expense	53,333,856
Total operating expenses	1,017,248,528
Operating loss	(216,050,029)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	136,401,129
Federal grants	52,618,573
Gifts	43,917,602
Investment income	2,464,792
Endowment income	3,391,690
Loss on disposal of capital assets	(14,313,047)
Interest on capital asset related debt	(18,761,581)
Net nonoperating revenues	205,719,158
Loss before other revenues	(10,330,871)
State capital appropriations	11,430,642
Capital grants and gifts	8,006,727
Additions to permanent endowments	1,674,088
Change in net position	10,780,586
NET POSITION, BEGINNING OF YEAR	1,203,239,710
NET POSITION, END OF YEAR	**$ 1,214,020,296**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statement of Cash Flows
For the year ended June 30, 2013

OPERATING ACTIVITIES	
Student tuition and fees	$ 381,315,968
Research grants and contracts	253,278,509
Sales and services of educational and other activities	27,285,647
Sales and services of auxiliary enterprises	126,468,144
Student loans disbursed	(3,137,403)
Student loans collected	2,762,823
Interest collected on student loans	300,870
Inflows from federal direct student loans	265,175,274
Outflows from federal direct student loans	(264,701,880)
Payments to employees for services	(521,626,355)
Payments to employees for benefits	(151,293,317)
Payments to suppliers	(267,717,720)
Payments to students for scholarships and fellowships	(19,960,232)
Other receipts	13,016,068
Inflows from agency funds	63,266,873
Outflows from agency funds	(62,433,390)
Net cash used for operating activities	(158,000,121)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	136,401,129
Federal grants	52,618,573
Gifts	43,868,834
Additions to permanent endowments	1,674,088
Federal loan liability	(294,948)
Net cash provided by noncapital financing activities	234,267,676
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	41,189,444
State capital appropriations	5,378,056
Capital grants and gifts	6,810,261
Proceeds from sale of capital assets	36,825
Purchase and construction of capital assets	(119,129,394)
Principal paid on capital asset related debt	(18,897,337)
Interest paid on capital asset related debt	(23,659,915)
Net cash used for capital and related financing activities	(108,272,060)
INVESTING ACTIVITIES	
Proceeds from note receivable	10,524,622
Investment Income	3,349,685
Endowment Income	3,361,042
Net cash provided by investing activities	17,235,349
Net decrease in cash and cash equivalents	(14,769,156)
Cash and cash equivalents, beginning of year	648,146,887
Cash and cash equivalents, end of year	**$ 633,377,731**
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	$ 361,019,509
Restricted - cash and cash equivalents, current	183,901,593
Restricted - cash and cash equivalents, noncurrent	88,456,629
	$ 633,377,731

See accompanying notes to the financial statements which are an integral part of these statements.

(Continued)

UNIVERSITY OF SOUTH CAROLINA
Statement of Cash Flows
For the year ended June 30, 2013

Reconciliation of net operating loss to net cash used for operating activities	
Operating loss	$ (216,050,029)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	53,333,856
Student loans cancelled	320,779
Change in current assets and liabilities	
Accounts receivable, net	(453,473)
Student loans receivable	(374,580)
Inventories	36,542
Prepaid items	(256,517)
Accounts payable	(1,591,410)
Retainage payable - non-capital	570,328
Accrued payroll	443,530
Accrued benefits	1,051,486
Accrued annual leave and related liabilities	2,742,310
Deferred revenues	804,843
Deposits	136,686
Other liabilities	(21,349)
Funds due from/held for others, net	1,306,877
Net cash used for operating activities	**$ (158,000,121)**
NONCASH TRANSACTIONS	
Gifts of capital assets reducing proceeds of capital grants and gifts	**$ 3,055,059**
Loss on disposal of capital assets, net	**$ (14,313,047)**
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	**$ 119,654**
Change in value of investments recognized in endowment income	**$ (97,966)**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS	
Current assets	
Cash and cash equivalents	$ 961,818
Restricted cash and cash equivalents	30,135,711
Accounts receivable, net	30,802,707
Prepaid items and deposits	286,083
Total current assets	62,186,319
Noncurrent assets	
Capital assets, net of accumulated depreciation	142,141
Total noncurrent assets	142,141
Total assets	62,328,460
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	47,006,428
Deferred revenue	14,000,095
Current portion of notes payable	55,586
Total current liabilities	61,062,109
Noncurrent liabilities	
Long term notes payable	79,949
Total noncurrent liabilities	79,949
Total liabilities	61,142,058
NET POSITION	
Invested in capital assets, net of related debt	1,311
Unrestricted	1,185,091
Total net position	**$ 1,186,402**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES	
Operating revenues	
Federal grants and contracts	$ 84,181,723
Nongovernmental grants and contracts	83,452,107
Management fees and recoveries	13,662,006
Royalty income	41,237
Other operating revenues	19,598
Total operating revenues	181,356,671
EXPENSES	
Operating expenses	
Salaries and benefits	2,657,190
Services and supplies	1,539,771
Research and development direct costs	176,695,302
Total operating expenses	180,892,263
Operating income	464,408
NONOPERATING REVENUES (EXPENSES)	
Private gifts and donations	(427,006)
Interest income	4,014
Net nonoperating expenses	(422,992)
Change in net position	41,416
Net position at beginning of year	1,144,986
Net position at end of year	**$ 1,186,402**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS		
Current assets		
Cash and cash equivalents	$	20,397,640
Investments		8,282,064
Patient accounts receivable less allowance for doubtful accounts		3,141,715
Other accounts receivable		4,961,341
Limited use assets		354,169
Total current assets		37,136,929
Noncurrent assets		
Capital assets, net of accumulated depreciation		11,801,062
Total noncurrent assets		11,801,062
Total assets		48,937,991
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		10,366,346
Current portion of revenue bonds		5,525,000
Current portion of capital lease obligations		254,433
Total current liabilities		16,145,779
Noncurrent liabilities		
Long term capital lease obligations		244,271
Total noncurrent liabilities		244,271
Total liabilities		16,390,050
NET POSITION		
Unrestricted		32,547,941
Total net position	**$**	**32,547,941**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES	
Operating revenues	
Patient charges, net of contractual allowances & discounts	$ 38,688,540
Less, provision for bad debts	(2,560,000)
Net patient service revenue less provision for bad debts	36,128,540
Other contract and professional income	25,519,006
Realized investment income, net	235,479
Rental income	61,282
Other income	6,860,573
Total operating revenues	68,804,880
EXPENSES	
Operating expenses	
Support of medical school and clinical facilities	7,383,895
Operation of clinical facilities	56,447,870
Operation of building and equipment	2,346,494
Management and general	611
Total operating expenses	66,178,870
Operating income	2,626,010
NONOPERATING REVENUES	
Unrealized gain on investment holdings, net	718,741
Change in net position	3,344,751
Net position at beginning of year	29,203,190
Net position at end of year	**$ 32,547,941**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Financial Position

	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS								
Cash and cash equivalents	$ 2,249,721	$ 4,211,106	$ 3,015,105	$ 1,792,742	$ 2,040,742	$ 745,046	$ 1,479,011	$ 15,533,473
Investments	26,022,351	276,240,165	42,965,348	5,050,330	7,873,061	6,917,756	6,187,658	371,256,669
Real estate held for investment	30,334,513	2,719,411	-	-	-	-	-	33,053,924
Assets held in trust	-	63,914,283	5,000,000	-	499,214	-	-	69,413,497
Accounts receivable	575,130	4,505,730	530,750	521,658	-	-	-	6,133,268
Contributions receivable, net	2,154,840	33,348,830	3,324,322	-	3,299,392	325,418	965,158	43,417,960
Prepaid expenses	49,123	-	33,486	151,305	-	3,217,734	-	3,451,648
Other assets	250,969	-	125,893	41,355	-	-	-	418,217
Fixed assets, net of depreciation	15,919,527	-	-	2,318,210	173,681	18,345,601	2,221,875	38,978,894
Total assets	**$ 77,556,174**	**$ 384,939,525**	**$ 54,994,904**	**$ 9,875,600**	**$ 13,886,090**	**$ 29,551,555**	**$ 10,853,702**	**$ 581,657,550**
LIABILITIES								
Accounts payable and accrued expenses	$ 2,510,363	$ 7,320,942	$ 795,479	$ 126,335	$ -	$ -	$ 69,213	$ 10,822,332
Lines-of-credit	16,427,279	-	-	-	-	-	-	16,427,279
Deferred revenues	-	-	35,425	301,834	-	-	-	337,259
Bonds and notes payable	22,711,856	15,655,214	-	-	3,009,000	17,315,625	-	58,691,695
Other liabilities	18,303	6,657,707	-	-	378,195	5,362,696	-	12,416,901
Total liabilities	41,667,801	29,633,863	830,904	428,169	3,387,195	22,678,321	69,213	98,695,466
NET ASSETS								
Unrestricted	10,668,245	49,136,994	9,786,956	6,732,574	2,220,041	6,873,234	3,199,043	88,617,087
Temporarily restricted	22,204,185	122,712,841	20,797,408	2,714,857	2,354,014	-	2,832,981	173,616,286
Permanently restricted	3,365,928	183,455,827	23,579,636	-	5,924,840	-	4,752,465	221,078,696
Total Foundation net assets	36,238,358	355,305,662	54,164,000	9,447,431	10,498,895	6,873,234	10,784,489	483,312,069
Noncontrolling interest	(349,985)	-	-	-	-	-	-	(349,985)
Total net assets	35,888,373	355,305,662	54,164,000	9,447,431	10,498,895	6,873,234	10,784,489	482,962,084
Total liabilities and net assets	**$ 77,556,174**	**$ 384,939,525**	**$ 54,994,904**	**$ 9,875,600**	**$ 13,886,090**	**$ 29,551,555**	**$ 10,853,702**	**$ 581,657,550**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	For the years ended							
	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenues, gains and other support								
Contributions	$ 198,475	$ 19,126,930	$ 4,925,802	$ 1,925,233	$ 248,976	$ 6,808,423	$ 730,383	$ 33,964,222
Investment returns (losses)	3,430,987	3,402,661	-	109,590	763,363	-	(75,982)	7,630,619
Net realized and unrealized gains	-	19,362,612	933,041	617,346	186,130	-	-	21,099,129
Earned income	3,734,865	-	1,388,406	661,342	1,239,964	126,598	27,555	7,178,730
Other	541,860	739,475	-	-	-	-	-	1,281,335
Gain on disposal of assets	-	-	-	-	2,278,132	-	-	2,278,132
Net assets released from restrictions:								
Transfers	-	-	1,358,741	(365,227)	(724)	-	-	992,790
Reclassification based on law change	-	-	7,547	-	-	-	-	7,547
Satisfaction of program restrictions	1,994,152	14,121,678	2,671,341	-	904,616	-	317,217	20,009,004
Expiration of time restrictions	-	649,043	-	-	-	-	-	649,043
Total revenues, gains and other support	9,900,339	57,402,399	11,284,878	2,948,284	5,620,457	6,935,021	999,173	95,090,551
Expenses								
Scholarships and student assistance	-	9,178,339	826,574	125,500	88,036	-	176,951	10,395,400
Program services	3,447,596	22,003,924	5,169,095	1,853,486	2,956,062	-	288,540	35,718,703
Supporting services	3,442,710	3,373,651	274,702	1,056,900	3,246,934	-	360,634	11,755,531
Contribution to USC Capital Development Foundation	-	-	-	-	6,442,225	-	-	6,442,225
Other expenses	-	-	-	-	19,373	61,787	-	81,160
Total expenses	6,890,306	34,555,914	6,270,371	3,035,886	12,752,630	61,787	826,125	64,393,019
Excess revenues over (under) expenses	3,010,033	22,846,485	5,014,507	(87,602)	(7,132,173)	6,873,234	173,048	30,697,532
Interest rate swap fair value adjustment	-	-	-	-	1,546,310	-	-	1,546,310
Change in unrestricted net assets	3,010,033	22,846,485	5,014,507	(87,602)	(5,585,863)	6,873,234	173,048	32,243,842

See accompanying notes to the financial statements which are an integral part of these statements.

(Continued)

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	For the years ended							
	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	3,476,989	19,657,999	3,230,785	79,444	1,418,130	-	20,348	27,883,695
Investment returns	117,983	1,785,270	-	-	-	-	733,391	2,636,644
Net realized and unrealized gains	-	13,534,680	5,066,702	-	-	-	-	18,601,382
Other	249,471	56,844	-	262,877	125,602	-	10,692	705,486
Net assets released from restrictions:								
Transfers	-	-	(1,358,177)	365,227	(144,201)	-	-	(1,137,151)
Reclassification based on law change	-	-	(7,547)	-	-	-	-	(7,547)
Satisfaction of program restrictions	(1,994,152)	(14,121,678)	(2,671,341)	-	(904,616)	-	(317,217)	(20,009,004)
Expiration of time restrictions	-	(2,850,135)	-	-	-	-	-	(2,850,135)
Change in temporarily restricted net assets	1,850,291	18,062,980	4,260,422	707,548	494,915	-	447,214	25,823,370
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	-	7,760,350	360,615	-	2,233,886	-	83,375	10,438,226
Other	-	-	-	-	-	-	28,289	28,289
Net assets released from restrictions:								
Transfers	-	-	(564)	-	(105,075)	-	-	(105,639)
Expiration of time restrictions	-	2,201,092	-	-	-	-	-	2,201,092
Change in permanently restricted net assets	-	9,961,442	360,051	-	2,128,811	-	111,664	12,561,968
Change in net assets	4,860,324	50,870,907	9,634,980	619,946	(2,962,137)	6,873,234	731,926	70,629,180
Net increase attributable to noncontrolling interest	(85,937)	-	-	-	-	-	-	(85,937)
NET ASSETS, BEGINNING OF YEAR	31,463,971	304,434,755	44,529,020	8,827,485	13,461,032	-	10,052,563	412,768,826
NET ASSETS, END OF YEAR	**$ 36,238,358**	**$ 355,305,662**	**$ 54,164,000**	**$ 9,447,431**	**$ 10,498,895**	**$ 6,873,234**	**$ 10,784,489**	**$ 483,312,069**

See accompanying notes to the financial statements which are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina (the University) is a State-supported, coeducational institution of higher education. The University's 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 University as the primary government and other related entities as discretely presented component units.

The University is composed of the Columbia campus, including the Columbia School of Medicine, the Greenville School of Medicine, and seven system campuses. As the result of the State of South Carolina's (the State) reevaluation of the University as part of the State's financial reporting entity, the University will be reflected as a discretely presented component unit for fiscal year 2013**.** 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.

The University is implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, for the fiscal year ended June 30, 2013. As a result of the reevaluation of the University's financial reporting entity, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust), previously reported as a blended component unit of the University, is reported as a discretely presented component unit beginning with the 2013 fiscal year. The University's discretely presented component units are discussed in Note 11.

Financial Statements - The financial statement presentation for the University meets the requirements of GASB Codification Sections 2100-2900, *Financial Reporting,* and Co5, *Colleges and Universities.* The financial statement presentation provides a comprehensive, entity-wide perspective of the University's 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 noncurrent and depreciation expense. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting - For financial reporting purposes, the University is considered to be engaged only in business-type activities. Accordingly, the University's 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 University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The University participates 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.

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 University reports its deposits in the general deposit account at cost and its special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the University's special deposit accounts is posted at the end of each month based on the percentage of the University's 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 University accounts for its investments at fair value in accordance with GASB Codification Section I50, *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 University's 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 restricted 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 rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows 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 University capitalizes 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 University capitalizes 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 2013 was $4,014,528.

Deferred Revenues and Deposits - Deferred revenues include amounts received 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 deferred revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. Deferred 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; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Position - Components of the University's net position are classified as follows:

Invested in capital assets, net of related debt: This represents the University's 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 invested in capital assets, net of related debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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 University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The University 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 University may be subject to taxation as unrelated business income.

Classification of Revenues - The University has classified its 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 University's 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 University; and
(4) grants and contracts that are essentially the same as contracts for services that finance programs the University 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Scholarship Allowance - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, 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 University's financial statements.

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

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

Governmental units that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University had no rebatable arbitrage liability at June 30, 2013.

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 University has a total return policy for authorizing and spending endowment income.

At June 30, 2013, $12,591,572 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other,* represented net appreciation of donor-restricted endowments.

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

Most deposits and investments of the University 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.

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

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

Statement of Net Position		Notes	
Cash and cash equivalents (current)	$ 361,019,509	Cash on hand	$ 478,521
Restricted cash and cash equivalents (current) for:		Deposits held by State Treasurer	632,867,664
Debt service	13,501,176	Other deposits	31,546
Scholarship, research, instruction, and other	30,371,317	Investments held by State Treasurer	2,458,273
University administered loans	234,264	Other investments	1,821,630
Capital projects	139,794,836		
	183,901,593		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	69,530,746		
Federal student loans	2,548,302		
Debt service reserves	16,377,581		
	88,456,629		
Investments (noncurrent)	4,279,903		
	$ 637,657,634		**$ 637,657,634**

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 and investments 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, 2013, $12,755,409 of the $632,867,664 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

Other Deposits - The University's 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 University's investments include common stock held by the State Treasurer for the University.

The University has 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 University will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

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

The University does 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 $1,629,630 were collateralized by securities held by the pledging bank's trust department but not in the University's name.

The net change in unrealized depreciation of investments for the current fiscal year was $97,966.

NOTE 3 - RECEIVABLES

Accounts Receivable – Accounts receivable consisted of the following:

Student and sponsors	$ 10,323,512
Auxiliary enterprises	4,181,936
Federal grants and contracts	29,284,922
State grants and contracts	85,634
Local grants and contracts	162,350
Non-governmental grants and contracts	5,372,205
Accrued interest	4,369,423
	53,779,982
Less allowance for doubtful accounts	(1,618,136)
Accounts receivable, net	**$ 52,161,846**

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 University ceased to participate in the programs.

As the University determines that loans are uncollectible, the loans are assigned to the federal agency administrating the loan programs.

NOTE 3 - RECEIVABLES, Continued

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

The State has authorized capital improvement bonds, research infrastructure bonds, state university infrastructure bonds and capital reserve fund appropriation bonds to fund improvements and expansion of state facilities. The University is 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, 2013 the University had $8,619,293 of outstanding state capital improvement bond authorization, $430,551 of outstanding research infrastructure bond authorization, $60,493 of outstanding state university infrastructure bond authorization and $6,971,474 of capital reserve fund appropriation. These funds are available from the State but have not been drawn down yet because the expenditures have not been incurred.

Notes Receivable - As authorized by South Carolina Code of Laws, the University may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation (the Foundation), a discretely presented component unit. Under the terms of the agreement, the University will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

During fiscal year 2013, the Foundation made a lump sum principal payment of $10,524,622. The remaining principal balance of $9,419,288 and the related cumulative accrued interest receivable of $2,909,818 respectively are included in notes receivable and accounts receivable, net. Interest payments of $1,663,954 were received from the Foundation in fiscal year 2013.

NOTE 4 - CAPITAL ASSETS

	June 30, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated				
Land and improvements	$ 79,343,268	$ 576,161	$ -	$ 79,919,429
Construction in progress	98,349,628	91,172,527	99,063,590	90,458,565
Works of art and historical treasures	19,611,884	2,608,199	-	22,220,083
Total capital assets not being depreciated	197,304,780	94,356,887	99,063,590	192,598,077
Other capital assets				
Land improvements	75,524,292	28,155,300	-	103,679,592
Buildings and improvements	1,346,164,821	54,214,896	18,332,451	1,382,047,266
Machinery, equipment and other	168,722,047	11,991,222	6,003,558	174,709,711
Vehicles	12,759,042	3,562,967	350,760	15,971,249
Intangibles	4,231,250	30,612,574	261,703	34,582,121
Total capital assets at historical cost	1,607,401,452	128,536,959	24,948,472	1,710,989,939
Less accumulated depreciation for				
Land improvements	19,135,388	4,160,683	-	23,296,071
Buildings and improvements	523,720,870	37,028,539	4,342,231	556,407,178
Machinery, equipment and other	127,655,731	10,879,017	5,675,107	132,859,641
Vehicles	9,911,621	1,042,033	350,760	10,602,894
Intangibles	3,533,069	223,584	230,502	3,526,151
Total accumulated depreciation	683,956,679	53,333,856	10,598,600	726,691,935
Other capital assets, net	923,444,773	75,203,103	14,349,872	984,298,004
Capital assets, net	**$ 1,120,749,553**	**$ 169,559,990**	**$ 113,413,462**	**$ 1,176,896,081**

NOTE 5 - PENSION PLANS

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

NOTE 5 - PENSION PLANS, Continued

South Carolina Retirement System - The majority of employees of the University are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). 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. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable 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 qualify for disability annuity benefits provided they have a minimum of eight years of credited service. 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.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death	
Ended	Rate	Contribution	Rate	Contribution
2013	10.450%	$26,289,000	0.150%	$377,000
2012	9.385%	$22,892,000	0.150%	$366,000
2011	9.240%	$22,069,000	0.150%	$358,000

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. 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.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 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 compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay 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. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death		Accidental Death	
Ended	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	$ 706,000	0.200%	$ 11,900	0.200%	$ 11,900
2012	11.385%	$ 617,000	0.200%	$ 10,900	0.200%	$ 10,900
2011	11.130%	$ 550,000	0.200%	$ 9,900	0.200%	$ 9,900

NOTE 5 - PENSION PLANS, Continued

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the University may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately $20,849,000 (excluding the surcharge) from the University as employer and approximately $13,966,000 from its employees as plan members.

Funding Policies - Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

The amounts paid by the University for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

For the fiscal year ended June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the University will be required to recognize a portion of the unfunded pension liability of the cost sharing 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 University contributes 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 statue to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately $20,794,000 and $18,368,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, 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, 2013 and 2012. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $238,000 and $233,000 for the years ended June 30, 2013 and 2012, respectively.

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

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

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

The University participates 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, will not be material.

The University had outstanding commitments under construction contracts of $71,052,837 for capital and $54,285,238 for noncapital projects. The University anticipates 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

2014	$ 2,504,691
2015	2,436,093
2016	1,280,349
2017	739,799
2018	709,475
2019-2023	3,290,412
2024-2028	3,250,000
2029-2030	1,191,667
Total minimum lease payments	**$ 15,402,486**

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2014-2030. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were $3,517,060 for fiscal year 2013. Of this amount, $466,050 was paid to other State agencies. In the current fiscal year, the University incurred expenses of $1,103,168 for office copier contingent rentals on a cost per copy basis.

The University also has 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 University paid $3,500,000, representing rent due for the entire term. As of June 30, 2013, the remaining unamortized prepaid balance related to the parking lease agreement was $2,400,000 with $100,000 reflected as a current asset.

NOTE 8 - LEASE OBLIGATIONS, Continued

The University also has a 36 month operating lease agreement for a storefront at 258 King Street in Charleston for $6,370 per month. In accordance with the terms of the lease, in fiscal year 2012, the University paid $229,320, representing rent due for the entire term. As of June 30, 2013, the remaining unamortized prepaid balance related to the lease agreement was $146,510 with $76,440 reflected as a current asset.

Capital Leases

Buildings and land held by the University under capital leases as of June 30, 2013:

	Cost	Accumulated Depreciation	Net
Buildings	$ 18,815,394	$ 2,485,910	$ 16,329,484
Land	270,000	-	270,000

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

2014	$ 1,539,011
2015	1,509,476
2016	1,519,643
2017	5,387,123
2018	1,108,529
2019-2023	5,124,340
2024-2028	4,992,261
2029-2031	2,684,967
Total minimum lease payments	23,865,350
Less amount representing interest	(7,168,124)
Present value of minimum lease payments	**$ 16,697,226**

Capital lease obligations consist of:

Agreement with USC Upstate Foundation for land and building, dated February 2010, payable in monthly principal payments of $6,500, with a fixed interest rate of 4.11%. This agreement expires in December 2019.	$ 444,263
Agreement with USC Upstate Foundation for land and building, dated August 2011, payable in monthly principal payments of $4,050, with a fixed interest rate of 3.57%. This agreement expires in August 2020.	343,821
Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from $30,000 to $80,000 with interest rates ranging from 5.085% to 6.815%. This agreement expires in March 2031.	15,909,142
	$ 16,697,226

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable – Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2013 Balance	Debt Retired in Fiscal Year 2013
State Institution Bonds					
Series 2002E	$ 17,085,000	3.5%	09/01/12	$ -	$ 805,000
Series 2003I	7,000,000	3.75%	10/01/13	330,000	315,000
Series 2006B	58,000,000	3.25% to 5.25%	04/01/26	41,895,000	2,380,000
Series 2009B	8,550,000	3.0% to 5.0%	04/01/29	7,160,000	340,000
Series 2011A Refunding	20,085,000	2.25% to 5.0%	03/01/22	18,160,000	1,730,000
Series 2011E	23,955,000	2.25% to 5.0%	03/01/31	22,270,000	855,000
Series 2012A Refunding	21,475,000	2.5% to 5.0%	04/01/23	19,540,000	1,935,000
Total State Institution Bonds				**109,355,000**	**8,360,000**
Revenue Bonds					
Series 2003B	5,500,000	3.5%	05/01/13	-	260,000
Series 2004A	30,900,000	5.375%	05/01/13	-	680,000
Series 2005A	12,400,000	3.725% to 5.0%	05/01/35	10,430,000	285,000
Series 2005A Refunding	48,075,000	4.0% to 5.0%	06/01/30	34,375,000	2,315,000
Series 2006A	13,995,000	4.0% to 4.375%	06/01/26	10,275,000	595,000
Series 2008A	64,335,000	3.25% to 5.25%	06/01/38	59,460,000	1,240,000
Series 2008A Athletic	27,395,000	4.0% to 5.5%	05/01/38	27,315,000	80,000
Series 2008B Athletic	2,455,000	5.4%	05/01/13	-	495,000
Series 2009A	28,920,000	3% to 5.0%	06/01/39	26,690,000	580,000
Series 2010A	28,510,000	3.0% to 5.0%	06/01/40	26,945,000	540,000
Series 2010A Athletic	65,855,000	4.0% to 5.0%	05/01/40	62,920,000	1,145,000
Series 2010B Refunding Athletic	12,840,000	3.0% to 5.0%	05/01/27	11,995,000	570,000
Series 2012	61,945,000	3.0% to 5.0%	05/01/35	61,945,000	-
Series 2012 Refunding	28,110,000	2.0% to 5.0%	05/01/34	28,110,000	-
Series 2012A Athletic	13,580,000	2.0% to 4.0%	05/01/42	13,335,000	245,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	37,185,000	3.0% to 5.0%	05/01/43	37,185,000	-
Total Revenue Bonds				**417,330,000**	**9,030,000**
Subtotal bonds payable				526,685,000	17,390,000
Plus unamortized bond premium				33,906,450	1,772,198
Less unamortized bond issue costs				(657,070)	(27,952)
Less unamortized loss on bond refunding				(5,208,151)	(395,832)
Total Bonds Payable				**$ 554,726,229**	**$ 18,738,414**

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The legal debt margin for state institution bonds shall not exceed ninety percent of tuition fees received from the preceding fiscal year.

Tuition fees used to calculate the University's debt service limit on bond indebtedness for the preceding year were $26,110,833, which results in a legal annual debt service at June 30, 2013 of $23,499,750. The annual debt service payments for the fiscal year were $13,291,148. Tuition revenue pledged in fiscal year 2013 was $27,777,552 for state institution bonds.

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

General revenue bonds are payable from a pledge of net revenues derived by the University 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 University 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 2013 were $15,882,087.

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 2013 were $1,585,049 of special student fees, $1,694,772 of special admission fees and $4,972,910 of athletic department revenues.

The University has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event such required payment has not been made, for a period equal to the final maturity of the bonds. Certain amounts of the bonds payable are callable at the option of the University.

The University believes it is in compliance with all related bond covenants of its issued debt.

On May 1, 2013 the University issued $37,185,000 in revenue bonds for the purchase and renovation of housing facilities.

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

	Principal	Interest	Total
State Institution Bonds			
2014	$ 8,510,000	$ 4,716,113	$ 13,226,113
2015	8,805,000	4,381,688	13,186,688
2016	9,205,000	3,996,400	13,201,400
2017	7,205,000	3,606,300	10,811,300
2018	7,520,000	3,277,013	10,797,013
2019-2023	40,460,000	10,760,325	51,220,325
2024-2028	21,995,000	3,530,206	25,525,206
2029-2031	5,655,000	539,538	6,194,538
Total	**$ 109,355,000**	**$ 34,807,583**	**$ 144,162,583**

	Principal	Interest	Total
Revenue Bonds			
2014	$ 9,940,000	$ 19,476,444	$ 29,416,444
2015	10,845,000	19,079,044	29,924,044
2016	12,595,000	18,641,719	31,236,719
2017	13,105,000	18,136,644	31,241,644
2018	13,295,000	17,581,106	30,876,106
2019-2023	74,625,000	78,760,100	153,385,100
2024-2028	86,990,000	60,223,281	147,213,281
2029-2033	93,690,000	38,972,438	132,662,438
2034-2038	79,170,000	16,676,950	95,846,950
2039-2043	23,075,000	2,079,575	25,154,575
Total	**$ 417,330,000**	**$ 289,627,301**	**$ 706,957,301**

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Notes Payable – Notes payable consisted of the following:

University note payable secured by printing press equipment, dated September 2007, payable in semi-annual installments of $43,008, matures September 2014, fixed interest rate of 3.6%.	$ 124,509
University note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of $31,458, matures December 2015, imputed fixed interest rate of 2.15%.	90,542
University note payable to acquire energy savings equipment and lighting retrofit, dated December 2008, payable in annual installments of $51,581 subject to amount drawn at any given time, matures April 2020, fixed interest rate of 3.00%.	319,306
University note payable for energy efficiency projects, dated June 2010, payable in annual installments of $7,168, at no interest, matures June 2015.	7,168
University note payable for energy efficiency projects, dated January 2011, payable in annual installments of $5,831, at no interest, matures January 2015.	11,495
University note payable for energy efficiency projects, dated September 2009, payable in annual installments of $3,289, at no interest, matures September 2014.	6,578
University note payable for energy efficiency projects, dated September 2010, payable in annual installments of $9,811, at no interest, matures September 2014.	19,623
University note payable for energy efficiency projects, dated December 2010, payable in annual installments of $17,566, at no interest, matures December 2013.	17,566
University note payable for energy efficiency projects, dated January 2011, payable in annual installments of $6,896, at no interest, matures January 2014.	6,896
	$ 603,683

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2014	$ 204,222	$ 15,340	$ 219,562
2015	134,469	10,455	144,924
2016	75,319	7,750	83,069
2017	45,830	5,752	51,582
2018	47,204	4,377	51,581
2019-2020	96,639	4,463	101,102
Total	**$ 603,683**	**$ 48,137**	**$ 651,820**

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
Bonds Payable:					
State Institution Bonds	$ 117,715,000	$ -	$ 8,360,000	$ 109,355,000	$ 8,510,000
Revenue Bonds	389,175,000	37,185,000	9,030,000	417,330,000	9,940,000
Subtotal Bonds Payable	506,890,000	37,185,000	17,390,000	526,685,000	18,450,000
Unamortized Bond Premiums	31,724,502	3,954,146	1,772,198	33,906,450	1,924,669
Unamortized Bond Discounts	(685,022)	-	(27,952)	(657,070)	(28,745)
Unamortized Loss on Bond Refunding	(5,603,983)	-	(395,832)	(5,208,151)	(394,812)
Total Bonds Payable	532,325,497	41,139,146	18,738,414	554,726,229	19,951,112
Notes Payable	1,466,660	50,298	913,275	603,683	204,222
Total Bonds and Notes Payable	**$ 533,792,157**	**$ 41,189,444**	**$ 19,651,689**	**$ 555,329,912**	**$20,155,334**
Capital Lease Obligations	$ 17,291,288	$ -	$ 594,062	$ 16,697,226	$ 637,803
Accrued compensated absences	$ 28,703,360	$ 17,896,333	$ 15,154,024	$ 31,445,669	$16,037,292

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

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (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 University of South Carolina Upstate Foundation; the University of South Carolina Upstate Capital Development Foundation, Inc.; and the Educational Foundation of the University of South Carolina – Lancaster are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the University, they are considered component units of the University and are discretely presented in the University's financial statements accordingly as non-governmental or governmental reporting entities.

NOTE 11 - COMPONENT UNITS, Continued

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

Governmental Discretely Presented Component Units

The University of South Carolina Research Foundation (the Foundation) exists exclusively to facilitate 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 University to resume its historic role of directly processing new federal grant and contract transactions. The University expects that over a period of five 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 USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine. The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3). In order to conform to the University fiscal year end and other operational reasons, the Trust changed the end of its financial reporting period to June 30. This change was effective for the inclusion in the financial statements of the University on June 30, 2013. 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.

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 University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. The University receives funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. The University also pays the Foundation for the lease of real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

NOTE 11 - COMPONENT UNITS, Continued

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the University of South Carolina. 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 University. The University receives 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 University; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of $183,455,827 or 52% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation (the Foundation) was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The University receives funds for scholarships, reimbursement of personnel services, fringe benefit and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of $23,579,636 or 43% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

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 University, helping graduates keep in touch with one another, and providing programs of continuing education. The University receives funds for scholarships from the Association and provides office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The USC Upstate Foundation (the Foundation) was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate. The University receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the University. Complete financial statements for the Foundation can be obtained at USC Upstate Foundation, 800 University Way, Spartanburg, SC 29303.

The USC Upstate Capital Development Foundation, Inc. (the Foundation) was established to accept real property donated to the University of South Carolina Upstate, serve as the purchasing agent for property on behalf of the USC Upstate that is integral to the growth of the campus, and to manage property under leasing agreements to the University. Complete financial statements for the Foundation can be obtained at USC Upstate Capital Development Foundation, 800 University Way, Spartanburg, SC 29303.

The USC Upstate Foundation transferred CPF Properties II, LLC (approximately $6.4 million) to the USC Upstate Capital Development Foundation, Inc. effective June 30, 2013, however the activity for CPF Properties II, LLC for the current year is reflected in the financial statements for the USC Upstate Foundation.

NOTE 11 - COMPONENT UNITS, Continued

The Educational Foundation of the University of South Carolina - Lancaster (the Foundation) operates for the benefit and support of the University of South Carolina at Lancaster. 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 University. The University receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University. In order to conform to the University fiscal year end, the Foundation changed the end of its financial reporting period to June 30. Although this change was effective for inclusion in the financial statements of the University on June 30, 2013, audited financial statements were not available for the reporting period ended June 30, 2013. The most recent financial statements available at the time of issuance of the University financial statements were for the fiscal year ended December 31, 2012. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

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

Funds Received from Component Units

USC Research Foundation	$	26,418,321
USC School of Medicine Educational Trust & Clinical Faculty Practice		2,045,896
USC Development Foundation		858,455
USC Educational Foundation		19,114,858
USC Business Partnership Foundation		63,939
Greater USC Alumni Foundation		608,023
Educational Foundation of USC Lancaster		85,247
USC Upstate Foundation		178,828
	$	**49,373,567**

The majority of the University of South Carolina Research Foundation revenues are recorded by the University 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 $10,469,995 due from the University of South Carolina Research Foundation at June 30, 2013.

Funds Paid to Component Units

USC Research Foundation	$	158,972
USC School of Medicine Educational Trust & Clinical Faculty Practice		3,299,378
USC Development Foundation		382,225
USC Educational Foundation		51,910
USC Business Partnership Foundation		35,242
Greater USC Alumni Association		10,652
USC Upstate Foundation		43,201
USC Upstate Capital Development Foundation		84,398
Educational Foundation of USC Lancaster		2,520
	$	**4,068,498**

NOTE 12 - RELATED PARTIES

There are several separately charted legal entities which do not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, to be treated as component units of the University. These entities are the local higher education commissions. While they are not financially accountable to the University, these organizations exist primarily to provide financial assistance and other support to the University system campuses and the educational programs. The activities of these entities are not included in the University's financial statements. However, the University's statements for the year ended June 30, 2013 include significant transactions between them and the University which are as follows:

Aiken County Commission for Higher Education Commission - The Aiken County Commission for Higher Education (the Commission) was created under Act 103 of the 1961 Session of the General Assembly of South Carolina. The Commission is composed of eight members who are appointed by the Governor on the recommendation of a majority of the Aiken County Legislative Delegation. In addition, the Superintendent of Education for Aiken County and the Chair of the Aiken Commission for Technical Education are ex-officio members of the Commission. The Commission's purpose is the establishment and maintenance of an institution of higher education in Aiken County and it is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and generally, to take such actions in its name necessary to secure for Aiken County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Aiken County to accomplish these objectives. During the year ended June 30, 2013, the Commission made grants to the University of South Carolina Aiken (USC Aiken) totaling $100,000 for campus maintenance and enhancements. USC Aiken provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. The Commission leases its land and buildings to USC Aiken for $1 annually. At June 30, 2013, the Commission had a net position of $1,612,973.

Beaufort Jasper Higher Education Commission - The Beaufort Jasper Higher Education Commission (the Commission) was created by Act 59 in the 2004 session of the General Assembly of South Carolina. The Commission is composed of nine members who are appointed by the Governor on the recommendation of a majority of the Beaufort and Jasper County Legislative Delegation. The Commission's purpose is to contract with institutions of higher education for the establishment and operation of education centers in Beaufort and Jasper counties and it is empowered to make binding agreements for the furnishing of suitable facilities and accommodations for the education centers. The Commission receives an annual appropriation from Beaufort and Jasper Counties to accomplish these objectives. During the year ended June 30, 2013, a gift of $1,781,000 was paid from the Commission to the University of South Carolina Beaufort (USC Beaufort). Of this amount, $112,356 was reimbursement of Commission salaries paid by USC Beaufort, $81,000 was development reimbursement, and the remaining funds were gifted for general operating purposes. The Commission allows use of its land and buildings for USC Beaufort housing, dining, and bookstore services. At June 30, 2013, the Commission had a net position of $8,011,070.

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, 2013, the Commission received an annual appropriation of $1,301,493. The Commission disbursed $1,050,000 to USC Lancaster for operations and maintenance of the physical plant and $7,549 to vendors for insurance, professional services, and commencement expenses. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2013, the Commission had a net position of $482,759.

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 $88,331 for the fiscal year ended June 30, 2013. 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, 2013, the Commission had a net position of $121,757.

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, 2013, the Commission made payments to USC Sumter totaling $262,950 for the operation and maintenance of the campus. At June 30, 2013, the Commission had a net position of $293,947.

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 $157,419 to accomplish these objectives. During the year ended June 30, 2013, the Commission made grants to the University of South Carolina Union (USC Union) totaling $399,553 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, 2013, the Commission had a net position of $2,270,429.

NOTE 12 - RELATED PARTIES, Continued

Spartanburg County Commission for Higher Education - The Spartanburg County Commission for Higher Education (the Commission) was created under Act 36 of the 1967 Session of the General Assembly of South Carolina. The Commission is composed of fifteen members who are appointed by the Governor on the recommendation of a majority of the Spartanburg County Legislative Delegation. The Commission is responsible for the encouragement of higher education in Spartanburg County and adjacent areas and, more specifically, the establishment in Spartanburg County 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 Spartanburg County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Spartanburg County to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Upstate (USC Upstate) of $5,708 for the fiscal year ended June 30, 2013. The Commission controls land owned by the County and provides the land to USC Upstate at no cost. USC Upstate provides accounting and record maintenance services to the Commission at no charge. At June 30, 2013, the Commission had a net position of $820,000.

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

NOTE 13 - RISK MANAGEMENT, Continued

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 never exceeded the University's insurance coverage.

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

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

NOTE 14 - BIOMASS FACILITY

In August 2004, the University entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility is to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately $19.2 million. Since being placed in service the facility has operated intermittently and is inoperable as of the date of this report. The University and JCI have determined that the existing technology employed to operate the facility is not viable and that an alternate technology must be utilized to make the facility functional.

University Administration has evaluated the facility for potential impairment and has written off the remaining net book of $13,990,218 as of June 30, 2013. This impairment is included within the "Loss on disposal of capital assets" on the Statement of Revenues, Expenses and Changes in Net Position. The University continues negotiation with Johnson Controls, Inc. regarding financial settlement for the energy facility and expects final resolution in 2014.

NOTE 15 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$234,958,276	$ 68,621,914	$ 34,036,367	$ 46,682	$ 672,750	$ -	$ 338,335,989
Research	60,881,235	20,601,770	35,176,415	5,144	359,619	-	117,024,183
Public service	34,133,130	9,044,859	13,707,522	9,409	266,695	-	57,161,615
Academic support	46,556,581	12,936,381	22,529,977	26,507	22,264	-	82,071,710
Student services	35,279,379	9,361,857	21,502,792	826,647	95,071	-	67,065,746
Institutional support	43,709,078	12,696,352	9,268,286	174,474	22,300	-	65,870,490
Operation & plant maintenance	26,199,113	8,637,240	40,814,045	21,480,457	2,346	-	97,133,201
Auxiliary enterprises	43,007,211	9,222,610	58,480,574	8,521,390	676,634	-	119,908,419
Scholarships and fellowships	88,192	1,221,820	190,754	-	17,842,553	-	19,343,319
Depreciation	-	-	-	-	-	53,333,856	53,333,856
Total operating expenses	**$524,812,195**	**$152,344,803**	**$235,706,732**	**$31,090,710**	**$ 19,960,232**	**$53,333,856**	**$1,017,248,528**

NOTE 16 - ENDOWMENTS AND SIMILAR FUNDS

The University's endowment funds and type consist of the following:

Net Position Classification	True Endowment	Quasi Endowment	Total
Restricted - nonexpendable	$ 73,766,341	$ -	$ 73,766,341
Restricted - expendable			
Scholarships, research, instruction and other	-	1,818,049	1,818,049
Unrestricted	-	34,723,947	34,723,947
Total	**$ 73,766,341**	**$ 36,541,996**	**$ 110,308,337**

UNIVERSITY OF SOUTH CAROLINA
Schedule of Non-Capital and Capital State Appropriations
For the year ended June 30, 2013

The following supplemental information is provided at the request of the State of South Carolina Office of Comptroller General.

Non-Capital Appropriations	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	$ 122,145,340
From Budget and Control Board	
Pay Plan, Retirement and Employer Contributions for Health/Dental Insurance	6,163,023
Supplemental Appropriations (Proviso 90.20.38)	321,862
From Commission on Higher Education	
Technology Initiative	1,573,177
Academic Endowment Incentive	39,354
Deferred Maintenance	5,694,201
Transfer from Department of Revenue - EIA	464,172
Total non-capital appropriations recorded as current year revenue	**$ 136,401,129**
Capital Appropriations	
Capital Improvement Bond Proceeds:	
Proceeds drawn during the current fiscal year	$ 3,897,494
Plus: Expenses incurred but not drawn during current fiscal year	1,067,456
Less: Proceeds drawn but not expended during current fiscal year	(60,754)
Total capital improvement bond proceeds recorded as current year revenue	4,904,196
Research Infrastructure Bond Proceeds:	
Proceeds drawn during the current fiscal year	-
Plus: Expenses incurred but not drawn during current fiscal year	980,542
Less: Proceeds drawn but not expended during current fiscal year	(46,427)
Total research infrastructure bond proceeds recorded as current year revenue	934,115
University Infrastructure Bond Proceeds:	
Proceeds drawn during the current fiscal year	107,837
Plus: Expenses incurred but not drawn during current fiscal year	1,042
Less: Proceeds drawn but not expended during current fiscal year	(1,042)
Total university infrastructure bond proceeds recorded as current year revenue	107,837
Capital Reserve Fund Appropriations:	
Proceeds drawn during the current fiscal year	5,484,494
Plus: Expenses incurred but not drawn during current fiscal year	-
Less: Proceeds drawn but not expended during current fiscal year	-
Total capital reserve fund proceeds recorded as current year revenue	5,484,494
Total capital appropriations recorded as current year revenue	**$ 11,430,642**

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Mr. Bryan Hill, Deputy County Administrator
Beaufort County
P.O. Drawer 1228
Beaufort, SC 29901-1228

The USCB Small Business Development Center is requesting funding assistance for FY 2015 in the amount of $25,000.00. This represents the same amount as has been approved and provided in the past.

The USCB Small Business Development Center (SBDC) is an economic development program that is funded, in part, by Congress and is administered through the US Small Business Administration and is a grant program that requires local match of the funds. In South Carolina that match funding comes from the SC Legislature, local government and private companies. The program is administered in South Carolina through Grants Administration of the University of South Carolina. The funds are used to support staff salaries, supplies, equipment needs and upgrades, staff development and training and limited travel. All local SBDC staff members are employees of USC based on allocated grant funding and match. We do not receive any funding from USCB. The financial report for FY 2013 of the University of South Carolina is attached.

In Beaufort County the SBDC is located in USCB and performs business outreach and economic development. There are consultants at both campuses of USCB to conveniently serve the citizens of Beaufort County. The SBDC provides one-on-one no cost, confidential business consulting. The centers also offer and provide small business management training workshops on a variety of business subjects based on local market need. Our clients range from pre-venture entrepreneurs to existing business owners. We track our economic impact through the successes of our clients. All success metrics are identified and verified by our clients. The economic metrics that we track are jobs created, jobs saved, start-up of businesses, number of clients seen annually and capital infusion. A recap of the local economic impact of the USCB SBDC is attached to this request.

Thank you for your continued support of the USCB Small Business Development Center, it provides a much needed business assistance program for small business owners in Beaufort County. As always, if you have any questions please contact me.

Kindest regards,

Martin Goodman
Director

SOUTH CAROLINA
SBDC
In partnership with USCB

USCB Small Business Development Center

Beaufort - Hilton Head – Okatie – Bluffton
With offices in Historic Beaufort and at the Gateway to Hilton Head
On the campus of USCB

2013 PERFORMANCE HIGHLIGHTS

Economic Development *Effectiveness* *Efficiency*

ECONOMIC IMPACT:

For every $1 in federal funds invested in the [illegible]

Beaufort/HHI-Bluffton-Okatie SBDC Counseling:

735.95 hours spent on one-on-one **no charge,** confidential counseling with **120 clients**.

Beaufort/HHI-Bluffton-Okatie SBDC Capital Formation:

SBDC clients received **$2,780,300.00** worth of business loans and injected **$5,550,510.00** in equity for a **Capital Formation Total** of **$8,330,810.00** after working with Beaufort and Hilton Head/Okatie SBDC counselors on business plans and loan packages, creating over **107 new jobs**.

Beaufort/ HHI-Bluffton-Okatie SBDC -- Jobs created or saved:

As reported by our clients, **107 jobs were created or saved**. At $41,430 per capita (2010 per capita personal income per SC Statistical Abstract/ income/table 28) this represents **$4,433,010.00 in annual wages** in the local economy.

Beaufort/HHI-Bluffton- Okatie SBDC – New Business Creations:

12 New Business Starts occurred as a result of the assistance given by Beaufort and Hilton Head/Okatie SBDC consultants.

We're big on small business.
South Carolina Small Business Development Centers

UNIVERSITY OF SOUTH CAROLINA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2013

UNIVERSITY OF SOUTH CAROLINA

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elliott davis

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 (the University), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's 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 University of South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the USC Upstate Foundation; the USC Upstate Capital Development Foundation; and the Educational Foundation of the University of South Carolina - Lancaster. These financial statements represent approximately 89 percent, 93 percent, and 97 percent, respectively, of the assets, net position/assets, and revenues of the University's 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 University are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Carolina 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 USC Upstate Foundation; the USC Upstate Capital Development Foundation; and the Educational Foundation of the University of South Carolina - Lancaster were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 financial statement 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 University as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the accompanying 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, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Non-Capital and Capital State Appropriations as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2013, on our consideration of the University's 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 University's internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
October 10, 2013

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Management's Discussion and Analysis provides an overview and analysis of the University of South Carolina's financial activities for the fiscal year ended June 30, 2013, with comparative information for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2013 and 2012 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 primary institution, the University of South Carolina (the University). This discussion will not include the discretely presented component units, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, the University of South Carolina's Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, the Upstate Foundation, the Upstate Capital Development Foundation, and the Educational Foundation of the University of South Carolina - Lancaster.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities.* The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University 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 University's net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's 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, and net position of the University 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 University. 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
- *Liabilities* - What we owe to others and have collected from others before we have provided the service
- *Net Position* - The difference between assets and liabilities

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

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes 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 institution. Net position is divided into the following three major categories:

- *Invested in capital assets, net of related debt* - 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 University's permanent endowment funds and are 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.

Summary of Net Position

Assets	**2013**	**RECLASSIFIED 2012***	**Increase/ (Decrease)**	**Percent Change**
Current Assets	$ 615,105,939	$ 642,142,343	$ (27,036,404)	-4.21%
Capital Assets, Net	1,176,896,081	1,120,749,553	56,146,528	5.01%
Other Noncurrent Assets	125,094,367	124,925,420	168,947	0.14%
Total Assets	1,917,096,387	1,887,817,316	29,279,071	1.55%
Liabilities				
Current Liabilities	117,084,507	118,571,948	(1,487,441)	-1.25%
Noncurrent Liabilities	585,991,584	566,005,658	19,985,926	3.53%
Total Liabilities	703,076,091	684,577,606	18,498,485	2.70%
Net Position				
Invested in capital assets, net of related debt	671,052,507	668,124,212	2,928,295	0.44%
Restricted - nonexpendable	73,766,341	72,135,427	1,630,914	2.26%
Restricted - expendable	121,396,245	101,849,956	19,546,289	19.19%
Unrestricted	347,805,203	361,130,115	(13,324,912)	-3.69%
Total Net Position	**$ 1,214,020,296**	**$ 1,203,239,710**	**$ 10,780,586**	**0.90%**

*Reclassifications - Prior period amounts have been reclassified to conform to current period presentation.

- Total assets of the University increased by $29.3 million. Current assets decreased $27 million while capital assets increased by $56.1 million. This overall increase in total assets is due to the completion of several athletic facility projects, residence hall renovations and purchase and significant upgrades to campus technology systems during fiscal year 2013. Also, the University wrote off the remaining net book value of $14 million for the Biomass Facility due to impairment.

- The increase in liabilities of $18.5 million is primarily attributable to an increase in long term debt. Housing revenue bonds in the amount of $37.2 million were issued to fund the renovation of more than 540 beds in the Women's Quad at USC Columbia and the purchase of a residence hall facility at the USC Upstate campus. The University paid $17.4 million in principal payments on outstanding bonds during fiscal year 2013.

Assets, Liabilities and Net Position

The net position of the University increased during the year by $10.8 million. The increase is driven by the following:

- $2.9 million increase in invested in capital assets, net of related debt - Invested in capital assets, net of related debt, shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets, only the debt issued to finance the University's capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Invested in capital assets, net of related debt, increased by $2.9 million due to the completion of significant upgrades to campus technology systems, residence hall renovations and purchase and several athletic facility projects. The University also wrote off the remaining net book value of $14 million in capital assets due to the impairment of the Biomass Facility.

- $19.5 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. Expendable restricted net position increased by $19.5 million due to an increase in debt service of $3.4 million and an increase in reserve for capital projects of $16.6 million.

- $13.3 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from University operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific University activities including academic and research programs, capital projects and significant upgrades to the campus technology network. During fiscal year 2013, the University used unrestricted funding towards significant upgrades to campus technology systems.

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 total 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 institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

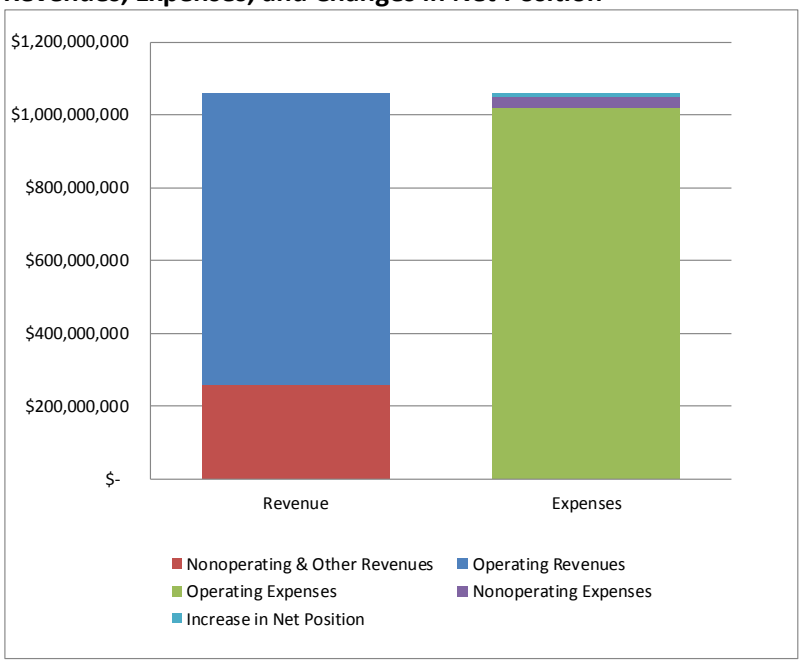
Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. 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
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	$ 614,877,690	$ 581,564,850	$ 33,312,840	5.73%
Less: scholarship allowance	(231,512,064)	(222,330,673)	(9,181,391)	4.13%
Federal grants and contracts	128,745,138	135,957,110	(7,211,972)	-5.30%
State grants and contracts	85,610,620	80,832,169	4,778,451	5.91%
Local grants and contracts	1,328,967	1,336,900	(7,933)	-0.59%
Nongovernmental grants and contracts	34,931,649	38,481,356	(3,549,707)	-9.22%
Sales and services of educational and other activities	27,262,728	26,499,787	762,941	2.88%
Sales and services of auxiliary enterprises	133,025,559	130,397,479	2,628,080	2.02%
Less: scholarship allowance	(4,804,751)	(5,182,465)	377,714	-7.29%
Interest collected on student loans	300,870	327,687	(26,817)	-8.18%
Other fees	5,981,759	5,967,471	14,288	0.24%
Other operating revenues	5,450,334	5,464,472	(14,138)	-0.26%
Total operating revenues	801,198,499	779,316,143	21,882,356	2.81%
Nonoperating Revenues:				
State appropriations	136,401,129	118,333,486	18,067,643	15.27%
Federal grants	52,618,573	53,320,445	(701,872)	-1.32%
Gifts	43,917,602	38,400,939	5,516,663	14.37%
Investment Income	2,464,792	7,822,640	(5,357,848)	-68.49%
Endowment Income	3,391,690	6,678,508	(3,286,818)	-49.21%
Total nonoperating revenues	238,793,786	224,556,018	14,237,768	6.34%
Total revenues	1,039,992,285	1,003,872,161	36,120,124	3.60%
Operating Expenses:				
Salaries and wages	524,812,195	499,071,052	25,741,143	5.16%
Fringe benefits	152,344,803	137,432,448	14,912,355	10.85%
Services and supplies	235,706,732	223,142,006	12,564,726	5.63%
Utilities	31,090,710	29,515,227	1,575,483	5.34%
Scholarships and fellowships	19,960,232	20,205,750	(245,518)	-1.22%
Depreciation expense	53,333,856	51,253,440	2,080,416	4.06%
Total operating expenses	1,017,248,528	960,619,923	56,628,605	5.90%
Nonoperating Expenses:				
Loss on disposals of capital assets	14,313,047	574,623	13,738,424	2390.86%
Interest on capital asset related debt	18,761,581	19,024,987	(263,406)	-1.38%
Total nonoperating expenses	33,074,628	19,599,610	13,475,018	68.75%
Total expenses	1,050,323,156	980,219,533	70,103,623	7.15%
Other revenues	21,111,457	17,916,874	3,194,583	17.83%
Increase in net position	10,780,586	41,569,502	(30,788,916)	-74.07%
Net position at beginning of year	1,203,239,710	1,161,670,208	41,569,502	3.58%
Net position at end of year	**$ 1,214,020,296**	**$ 1,203,239,710**	**$ 10,780,586**	0.90%

Revenues, Expenses, and Changes in Net Position



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

- A net $24.1 million increase in student tuition and fees and a $2.6 million increase in sales and services of auxiliary enterprises along with a $6 million decrease in grants and contracts were largely responsible for the overall $21.9 million increase in operating revenues. Student tuition and fee revenue, net of the scholarship allowance, increased by $24.1 million primarily due to a 3.14% tuition increase for all USC System campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 2.5% in full time equivalent students. For Columbia, the combined tuition and enrollment increase accounted for $17.7 million of the change. In 2013, the University added a second medical school campus and enrolled 53 students that generated $2 million in new tuition and fees. While enrollment at the Senior and Regional campuses remained constant, tuition and fee increases accounted for $4.4 million. Sales and services of auxiliary enterprises are primarily driven by athletics, including increased conference distribution and trademark and licensing revenue. Contracts and grants decreased due to reduced federal funding for direct loans and Federal Sequestration.

- Operating expenses increased $56.6 million, 5.9% over the prior year. The majority of the increase, approximately $40.7 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment as well as the 3% state pay package and increases in retirement contribution and employer health insurance. Services and supplies increased $12.6 million due to inflationary and enrollment increases and significant upgrades to campus technology systems. Depreciation expense increased $2.1 million due to the completion of several athletic facility projects and residence hall renovations.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, various projects on the Columbia campus were in progress including renovations to Petigru College and the Women's Quad dormitories, construction of the Darla Moore School of Business, and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including a new softball stadium.

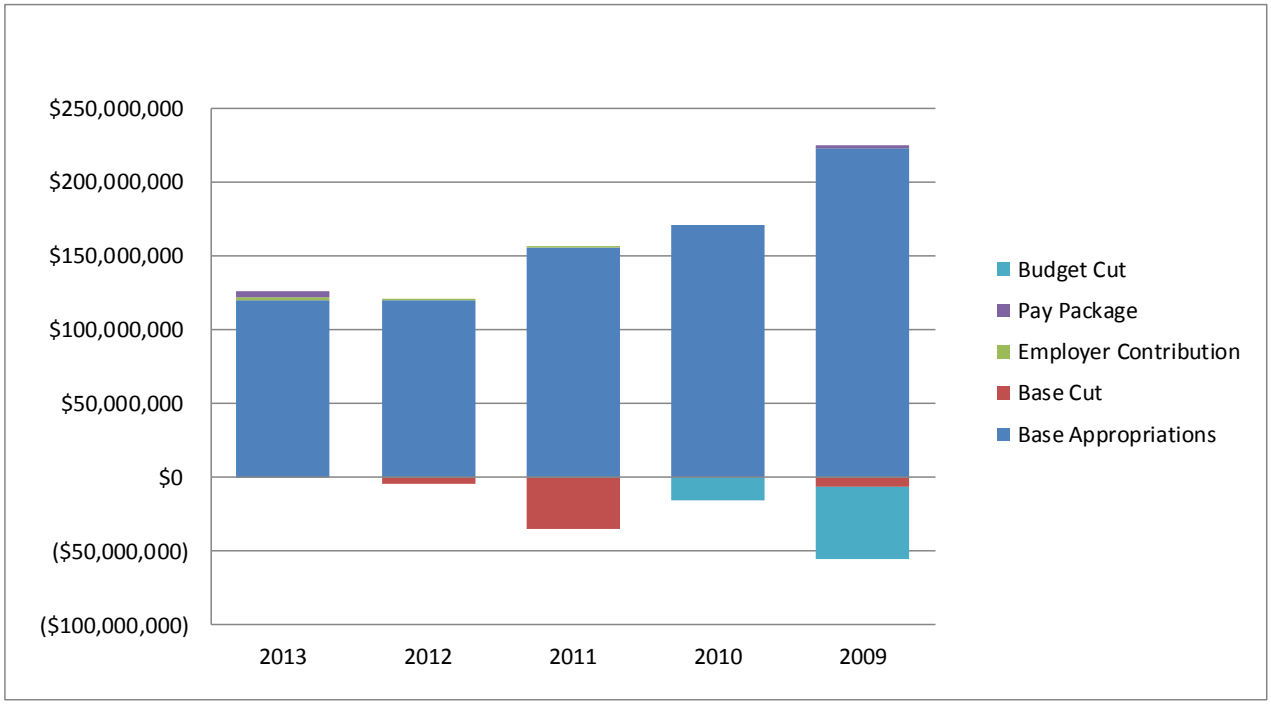
The University's indebtedness consists of bonds payable of $554.7 million and notes payable of $606,683. During the current year, $37.2 million in revenue bonds were issued to fund various capital projects. Due to several refundings in the prior year that took advantage of existing low interest rates, no bonds were refunded in the current year.

ECONOMIC OUTLOOK

The economic position of the University continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the University's sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The University system received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases, as well as new funds for a new targeted student program, Palmetto College, a virtual college that will provide higher education opportunities for students from all economic and geographic regions to earn a bachelor's degree near or from their own homes. The State has invested $5 million annually in this important initiative.

The State finished the 2013 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. In addition, because of surplus revenues, $68.3 million is available for transfer to the State's contingency reserve fund. The University is a beneficiary of the fourth straight year of state surpluses, with nearly $7 million in non-recurring state funds available for deferred maintenance projects in 2014. The University also receives new, non-recurring State funds allocated for the 2014 year including funding for the On Your Time Graduation Initiative, a program that recognizes that the traditional university academic calendar has become antiquated and inflexible for today's student, many times impeding timely degree completion, costing students more in tuition and student loans, and delaying employment in South Carolina's economy. By redefining the traditional university academic calendar, providing flexibility and maximizing assets, the University will provide a model for colleges and universities in the State and beyond her borders. Additionally, the Senior and Regional campuses receive new funds to address the base state funding per student inequities.

State Appropriations

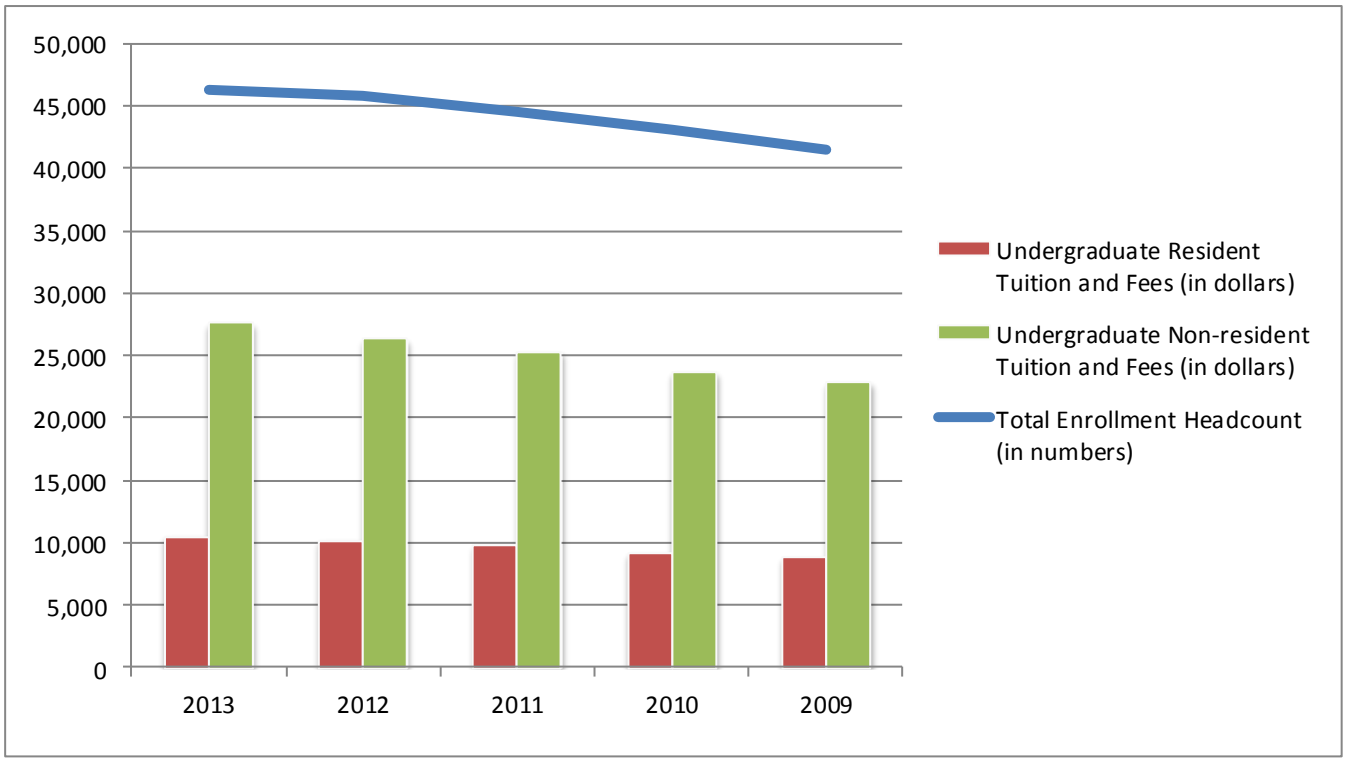


UNIVERSITY OF SOUTH CAROLINA
Management's Discussion and Analysis
(Unaudited)

The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2013 year are in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuitions for three 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 University remains strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2013 of more than 5,034 students. This entering class is also the most academically talented in the University's history with an average SAT score of 1206. The University continues to cultivate both student quality and access through the development of innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its second year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2013 semester 168 new students are enrolled in the Gamecock Gateway and 103 of students in the pilot year are now fully enrolled at USC Columbia.

University fundraising has increased by more than 38% in the last five years during the largest capital campaign in its history with a $1 billion goal. As of June 30, 2013 the University has raised $756.5 million with two years remaining. Research grant awards were $220.2 million in the 2013 fiscal year, an expected reduction of 8% from the prior year due to Federal Sequestration.

Enrollment and Tuition & Fees



UNIVERSITY OF SOUTH CAROLINA
Statement of Net Position
June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	$ 361,019,509
Restricted - cash and cash equivalents	183,901,593
Accounts receivable, net	52,161,846
Student loans receivable, current	3,228
Capital improvement bonds proceeds receivable	2,049,040
Inventories	2,935,401
Prepaid items	5,667,522
Funds due from others	7,367,800
Total current assets	615,105,939
Noncurrent assets:	
Restricted - cash and cash equivalents	88,456,629
Investments	4,279,903
Prepaid items	2,370,070
Notes receivable	9,419,288
Restricted - federal student loans receivable	18,047,353
Capital assets, net of accumulated depreciation	1,176,896,081
Other assets	2,521,124
Total noncurrent assets	1,301,990,448
Total assets	1,917,096,387
LIABILITIES	
Current liabilities:	
Accounts payable	23,957,260
Retainage payable - current portion	858,962
Accrued interest payable	3,910,464
Accrued payroll and related liabilities	14,653,998
Accrued compensated absences - current portion	16,037,292
Capital lease obligations - current portion	637,803
Long-term debt - current portion	20,155,334
Deferred revenues	32,585,058
Deposits	2,655,701
Other liabilities	504,718
Funds held for others	1,127,917
Total current liabilities	117,084,507
Noncurrent liabilities:	
Retainage payable	1,775,807
Accrued compensated absences	15,408,377
Federal loan liability	17,573,399
Capital lease obligations	16,059,423
Long-term debt	535,174,578
Total noncurrent liabilities	585,991,584
Total liabilities	703,076,091
NET POSITION	
Invested in capital assets, net of related debt	671,052,507
Restricted for:	
Nonexpendable	73,766,341
Expendable	
Scholarships, research, instruction, and other	23,867,093
Loans	2,863,850
Capital projects	70,191,555
Debt service	24,473,747
Unrestricted	347,805,203
Total net position	**$ 1,214,020,296**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013

OPERATING REVENUES	
Student tuition and fees ($29,362,601 pledged for bonds)	$ 614,877,690
Less: scholarship allowance	(231,512,064)
Federal grants and contracts	128,745,138
State grants and contracts	85,610,620
Local grants and contracts	1,328,967
Nongovernmental grants and contracts	34,931,649
Sales and services of educational and other activities	27,262,728
Sales and services of auxiliary enterprises ($20,854,997 pledged for bonds)	133,025,559
Less: scholarship allowance	(4,804,751)
Interest collected on student loans	300,870
Other fees ($1,694,772 pledged for bonds)	5,981,759
Other operating revenues	5,450,334
Total operating revenues	801,198,499
OPERATING EXPENSES	
Salaries and wages	524,812,195
Fringe benefits	152,344,803
Services and supplies	235,706,732
Utilities	31,090,710
Scholarships and fellowships	19,960,232
Depreciation expense	53,333,856
Total operating expenses	1,017,248,528
Operating loss	(216,050,029)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	136,401,129
Federal grants	52,618,573
Gifts	43,917,602
Investment income	2,464,792
Endowment income	3,391,690
Loss on disposal of capital assets	(14,313,047)
Interest on capital asset related debt	(18,761,581)
Net nonoperating revenues	205,719,158
Loss before other revenues	(10,330,871)
State capital appropriations	11,430,642
Capital grants and gifts	8,006,727
Additions to permanent endowments	1,674,088
Change in net position	10,780,586
NET POSITION, BEGINNING OF YEAR	1,203,239,710
NET POSITION, END OF YEAR	**$ 1,214,020,296**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Statement of Cash Flows
For the year ended June 30, 2013

OPERATING ACTIVITIES	
Student tuition and fees	$ 381,315,968
Research grants and contracts	253,278,509
Sales and services of educational and other activities	27,285,647
Sales and services of auxiliary enterprises	126,468,144
Student loans disbursed	(3,137,403)
Student loans collected	2,762,823
Interest collected on student loans	300,870
Inflows from federal direct student loans	265,175,274
Outflows from federal direct student loans	(264,701,880)
Payments to employees for services	(521,626,355)
Payments to employees for benefits	(151,293,317)
Payments to suppliers	(267,717,720)
Payments to students for scholarships and fellowships	(19,960,232)
Other receipts	13,016,068
Inflows from agency funds	63,266,873
Outflows from agency funds	(62,433,390)
Net cash used for operating activities	(158,000,121)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	136,401,129
Federal grants	52,618,573
Gifts	43,868,834
Additions to permanent endowments	1,674,088
Federal loan liability	(294,948)
Net cash provided by noncapital financing activities	234,267,676
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	41,189,444
State capital appropriations	5,378,056
Capital grants and gifts	6,810,261
Proceeds from sale of capital assets	36,825
Purchase and construction of capital assets	(119,129,394)
Principal paid on capital asset related debt	(18,897,337)
Interest paid on capital asset related debt	(23,659,915)
Net cash used for capital and related financing activities	(108,272,060)
INVESTING ACTIVITIES	
Proceeds from note receivable	10,524,622
Investment Income	3,349,685
Endowment Income	3,361,042
Net cash provided by investing activities	17,235,349
Net decrease in cash and cash equivalents	(14,769,156)
Cash and cash equivalents, beginning of year	648,146,887
Cash and cash equivalents, end of year	**$ 633,377,731**
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	$ 361,019,509
Restricted - cash and cash equivalents, current	183,901,593
Restricted - cash and cash equivalents, noncurrent	88,456,629
	$ 633,377,731

See accompanying notes to the financial statements which are an integral part of these statements.

(Continued)

UNIVERSITY OF SOUTH CAROLINA
Statement of Cash Flows
For the year ended June 30, 2013

Reconciliation of net operating loss to net cash used for operating activities	
Operating loss	$ (216,050,029)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	53,333,856
Student loans cancelled	320,779
Change in current assets and liabilities	
Accounts receivable, net	(453,473)
Student loans receivable	(374,580)
Inventories	36,542
Prepaid items	(256,517)
Accounts payable	(1,591,410)
Retainage payable - non-capital	570,328
Accrued payroll	443,530
Accrued benefits	1,051,486
Accrued annual leave and related liabilities	2,742,310
Deferred revenues	804,843
Deposits	136,686
Other liabilities	(21,349)
Funds due from/held for others, net	1,306,877
Net cash used for operating activities	**$ (158,000,121)**
NONCASH TRANSACTIONS	
Gifts of capital assets reducing proceeds of capital grants and gifts	**$ 3,055,059**
Loss on disposal of capital assets, net	**$ (14,313,047)**
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	**$ 119,654**
Change in value of investments recognized in endowment income	**$ (97,966)**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS	
Current assets	
Cash and cash equivalents	$ 961,818
Restricted cash and cash equivalents	30,135,711
Accounts receivable, net	30,802,707
Prepaid items and deposits	286,083
Total current assets	62,186,319
Noncurrent assets	
Capital assets, net of accumulated depreciation	142,141
Total noncurrent assets	142,141
Total assets	62,328,460
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	47,006,428
Deferred revenue	14,000,095
Current portion of notes payable	55,586
Total current liabilities	61,062,109
Noncurrent liabilities	
Long term notes payable	79,949
Total noncurrent liabilities	79,949
Total liabilities	61,142,058
NET POSITION	
Invested in capital assets, net of related debt	1,311
Unrestricted	1,185,091
Total net position	**$ 1,186,402**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES	
Operating revenues	
Federal grants and contracts	$ 84,181,723
Nongovernmental grants and contracts	83,452,107
Management fees and recoveries	13,662,006
Royalty income	41,237
Other operating revenues	19,598
Total operating revenues	181,356,671
EXPENSES	
Operating expenses	
Salaries and benefits	2,657,190
Services and supplies	1,539,771
Research and development direct costs	176,695,302
Total operating expenses	180,892,263
Operating income	464,408
NONOPERATING REVENUES (EXPENSES)	
Private gifts and donations	(427,006)
Interest income	4,014
Net nonoperating expenses	(422,992)
Change in net position	41,416
Net position at beginning of year	1,144,986
Net position at end of year	**$ 1,186,402**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2013

ASSETS		
Current assets		
Cash and cash equivalents	$	20,397,640
Investments		8,282,064
Patient accounts receivable less allowance for doubtful accounts		3,141,715
Other accounts receivable		4,961,341
Limited use assets		354,169
Total current assets		37,136,929
Noncurrent assets		
Capital assets, net of accumulated depreciation		11,801,062
Total noncurrent assets		11,801,062
Total assets		48,937,991
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		10,366,346
Current portion of revenue bonds		5,525,000
Current portion of capital lease obligations		254,433
Total current liabilities		16,145,779
Noncurrent liabilities		
Long term capital lease obligations		244,271
Total noncurrent liabilities		244,271
Total liabilities		16,390,050
NET POSITION		
Unrestricted		32,547,941
Total net position	**$**	**32,547,941**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the fiscal year ended June 30, 2013

REVENUES	
Operating revenues	
Patient charges, net of contractual allowances & discounts	$ 38,688,540
Less, provision for bad debts	(2,560,000)
Net patient service revenue less provision for bad debts	36,128,540
Other contract and professional income	25,519,006
Realized investment income, net	235,479
Rental income	61,282
Other income	6,860,573
Total operating revenues	68,804,880
EXPENSES	
Operating expenses	
Support of medical school and clinical facilities	7,383,895
Operation of clinical facilities	56,447,870
Operation of building and equipment	2,346,494
Management and general	611
Total operating expenses	66,178,870
Operating income	2,626,010
NONOPERATING REVENUES	
Unrealized gain on investment holdings, net	718,741
Change in net position	3,344,751
Net position at beginning of year	29,203,190
Net position at end of year	**$ 32,547,941**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Financial Position

	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS								
Cash and cash equivalents	$ 2,249,721	$ 4,211,106	$ 3,015,105	$ 1,792,742	$ 2,040,742	$ 745,046	$ 1,479,011	$ 15,533,473
Investments	26,022,351	276,240,165	42,965,348	5,050,330	7,873,061	6,917,756	6,187,658	371,256,669
Real estate held for investment	30,334,513	2,719,411	-	-	-	-	-	33,053,924
Assets held in trust	-	63,914,283	5,000,000	-	499,214	-	-	69,413,497
Accounts receivable	575,130	4,505,730	530,750	521,658	-	-	-	6,133,268
Contributions receivable, net	2,154,840	33,348,830	3,324,322	-	3,299,392	325,418	965,158	43,417,960
Prepaid expenses	49,123	-	33,486	151,305	-	3,217,734	-	3,451,648
Other assets	250,969	-	125,893	41,355	-	-	-	418,217
Fixed assets, net of depreciation	15,919,527	-	-	2,318,210	173,681	18,345,601	2,221,875	38,978,894
Total assets	**$ 77,556,174**	**$ 384,939,525**	**$ 54,994,904**	**$ 9,875,600**	**$ 13,886,090**	**$ 29,551,555**	**$ 10,853,702**	**$ 581,657,550**
LIABILITIES								
Accounts payable and accrued expenses	$ 2,510,363	$ 7,320,942	$ 795,479	$ 126,335	$ -	$ -	$ 69,213	$ 10,822,332
Lines-of-credit	16,427,279	-	-	-	-	-	-	16,427,279
Deferred revenues	-	-	35,425	301,834	-	-	-	337,259
Bonds and notes payable	22,711,856	15,655,214	-	-	3,009,000	17,315,625	-	58,691,695
Other liabilities	18,303	6,657,707	-	-	378,195	5,362,696	-	12,416,901
Total liabilities	41,667,801	29,633,863	830,904	428,169	3,387,195	22,678,321	69,213	98,695,466
NET ASSETS								
Unrestricted	10,668,245	49,136,994	9,786,956	6,732,574	2,220,041	6,873,234	3,199,043	88,617,087
Temporarily restricted	22,204,185	122,712,841	20,797,408	2,714,857	2,354,014	-	2,832,981	173,616,286
Permanently restricted	3,365,928	183,455,827	23,579,636	-	5,924,840	-	4,752,465	221,078,696
Total Foundation net assets	36,238,358	355,305,662	54,164,000	9,447,431	10,498,895	6,873,234	10,784,489	483,312,069
Noncontrolling interest	(349,985)	-	-	-	-	-	-	(349,985)
Total net assets	35,888,373	355,305,662	54,164,000	9,447,431	10,498,895	6,873,234	10,784,489	482,962,084
Total liabilities and net assets	**$ 77,556,174**	**$ 384,939,525**	**$ 54,994,904**	**$ 9,875,600**	**$ 13,886,090**	**$ 29,551,555**	**$ 10,853,702**	**$ 581,657,550**

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	For the years ended							
	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenues, gains and other support								
Contributions	$ 198,475	$ 19,126,930	$ 4,925,802	$ 1,925,233	$ 248,976	$ 6,808,423	$ 730,383	$ 33,964,222
Investment returns (losses)	3,430,987	3,402,661	-	109,590	763,363	-	(75,982)	7,630,619
Net realized and unrealized gains	-	19,362,612	933,041	617,346	186,130	-	-	21,099,129
Earned income	3,734,865	-	1,388,406	661,342	1,239,964	126,598	27,555	7,178,730
Other	541,860	739,475	-	-	-	-	-	1,281,335
Gain on disposal of assets	-	-	-	-	2,278,132	-	-	2,278,132
Net assets released from restrictions:								
Transfers	-	-	1,358,741	(365,227)	(724)	-	-	992,790
Reclassification based on law change	-	-	7,547	-	-	-	-	7,547
Satisfaction of program restrictions	1,994,152	14,121,678	2,671,341	-	904,616	-	317,217	20,009,004
Expiration of time restrictions	-	649,043	-	-	-	-	-	649,043
Total revenues, gains and other support	9,900,339	57,402,399	11,284,878	2,948,284	5,620,457	6,935,021	999,173	95,090,551
Expenses								
Scholarships and student assistance	-	9,178,339	826,574	125,500	88,036	-	176,951	10,395,400
Program services	3,447,596	22,003,924	5,169,095	1,853,486	2,956,062	-	288,540	35,718,703
Supporting services	3,442,710	3,373,651	274,702	1,056,900	3,246,934	-	360,634	11,755,531
Contribution to USC Capital Development Foundation	-	-	-	-	6,442,225	-	-	6,442,225
Other expenses	-	-	-	-	19,373	61,787	-	81,160
Total expenses	6,890,306	34,555,914	6,270,371	3,035,886	12,752,630	61,787	826,125	64,393,019
Excess revenues over (under) expenses	3,010,033	22,846,485	5,014,507	(87,602)	(7,132,173)	6,873,234	173,048	30,697,532
Interest rate swap fair value adjustment	-	-	-	-	1,546,310	-	-	1,546,310
Change in unrestricted net assets	3,010,033	22,846,485	5,014,507	(87,602)	(5,585,863)	6,873,234	173,048	32,243,842

See accompanying notes to the financial statements which are an integral part of these statements.

(Continued)

UNIVERSITY OF SOUTH CAROLINA
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities

	For the years ended							
	June 30, 2013						December 31, 2012	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	USC Upstate Foundation	USC Upstate Capital Development Foundation	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	3,476,989	19,657,999	3,230,785	79,444	1,418,130	-	20,348	27,883,695
Investment returns	117,983	1,785,270	-	-	-	-	733,391	2,636,644
Net realized and unrealized gains	-	13,534,680	5,066,702	-	-	-	-	18,601,382
Other	249,471	56,844	-	262,877	125,602	-	10,692	705,486
Net assets released from restrictions:								
Transfers	-	-	(1,358,177)	365,227	(144,201)	-	-	(1,137,151)
Reclassification based on law change	-	-	(7,547)	-	-	-	-	(7,547)
Satisfaction of program restrictions	(1,994,152)	(14,121,678)	(2,671,341)	-	(904,616)	-	(317,217)	(20,009,004)
Expiration of time restrictions	-	(2,850,135)	-	-	-	-	-	(2,850,135)
Change in temporarily restricted net assets	1,850,291	18,062,980	4,260,422	707,548	494,915	-	447,214	25,823,370
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	-	7,760,350	360,615	-	2,233,886	-	83,375	10,438,226
Other	-	-	-	-	-	-	28,289	28,289
Net assets released from restrictions:								
Transfers	-	-	(564)	-	(105,075)	-	-	(105,639)
Expiration of time restrictions	-	2,201,092	-	-	-	-	-	2,201,092
Change in permanently restricted net assets	-	9,961,442	360,051	-	2,128,811	-	111,664	12,561,968
Change in net assets	4,860,324	50,870,907	9,634,980	619,946	(2,962,137)	6,873,234	731,926	70,629,180
Net increase attributable to noncontrolling interest	(85,937)	-	-	-	-	-	-	(85,937)
NET ASSETS, BEGINNING OF YEAR	31,463,971	304,434,755	44,529,020	8,827,485	13,461,032	-	10,052,563	412,768,826
NET ASSETS, END OF YEAR	**$ 36,238,358**	**$ 355,305,662**	**$ 54,164,000**	**$ 9,447,431**	**$ 10,498,895**	**$ 6,873,234**	**$ 10,784,489**	**$ 483,312,069**

See accompanying notes to the financial statements which are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina (the University) is a State-supported, coeducational institution of higher education. The University's 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 University as the primary government and other related entities as discretely presented component units.

The University is composed of the Columbia campus, including the Columbia School of Medicine, the Greenville School of Medicine, and seven system campuses. As the result of the State of South Carolina's (the State) reevaluation of the University as part of the State's financial reporting entity, the University will be reflected as a discretely presented component unit for fiscal year 2013**.** 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.

The University is implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, for the fiscal year ended June 30, 2013. As a result of the reevaluation of the University's financial reporting entity, the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust), previously reported as a blended component unit of the University, is reported as a discretely presented component unit beginning with the 2013 fiscal year. The University's discretely presented component units are discussed in Note 11.

Financial Statements - The financial statement presentation for the University meets the requirements of GASB Codification Sections 2100-2900, *Financial Reporting,* and Co5, *Colleges and Universities.* The financial statement presentation provides a comprehensive, entity-wide perspective of the University's 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 noncurrent and depreciation expense. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting - For financial reporting purposes, the University is considered to be engaged only in business-type activities. Accordingly, the University's 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 University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The University participates 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.

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 University reports its deposits in the general deposit account at cost and its special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the University's special deposit accounts is posted at the end of each month based on the percentage of the University's 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 University accounts for its investments at fair value in accordance with GASB Codification Section I50, *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 University's 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 restricted 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 rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows 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 University capitalizes 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 University capitalizes 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 2013 was $4,014,528.

Deferred Revenues and Deposits - Deferred revenues include amounts received 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 deferred revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. Deferred 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; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Position - Components of the University's net position are classified as follows:

Invested in capital assets, net of related debt: This represents the University's 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 invested in capital assets, net of related debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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 University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The University 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 University may be subject to taxation as unrelated business income.

Classification of Revenues - The University has classified its 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 University's 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 University; and
(4) grants and contracts that are essentially the same as contracts for services that finance programs the University 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Scholarship Allowance - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, 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 University's financial statements.

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

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

Governmental units that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University had no rebatable arbitrage liability at June 30, 2013.

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 University has a total return policy for authorizing and spending endowment income.

At June 30, 2013, $12,591,572 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other,* represented net appreciation of donor-restricted endowments.

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

Most deposits and investments of the University 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.

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

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

Statement of Net Position		Notes	
Cash and cash equivalents (current)	$ 361,019,509	Cash on hand	$ 478,521
Restricted cash and cash equivalents (current) for:		Deposits held by State Treasurer	632,867,664
Debt service	13,501,176	Other deposits	31,546
Scholarship, research, instruction, and other	30,371,317	Investments held by State Treasurer	2,458,273
University administered loans	234,264	Other investments	1,821,630
Capital projects	139,794,836		
	183,901,593		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	69,530,746		
Federal student loans	2,548,302		
Debt service reserves	16,377,581		
	88,456,629		
Investments (noncurrent)	4,279,903		
	$ 637,657,634		**$ 637,657,634**

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 and investments 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, 2013, $12,755,409 of the $632,867,664 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

Other Deposits - The University's 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 University's investments include common stock held by the State Treasurer for the University.

The University has 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 University will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

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

The University does 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 $1,629,630 were collateralized by securities held by the pledging bank's trust department but not in the University's name.

The net change in unrealized depreciation of investments for the current fiscal year was $97,966.

NOTE 3 - RECEIVABLES

Accounts Receivable – Accounts receivable consisted of the following:

Student and sponsors	$ 10,323,512
Auxiliary enterprises	4,181,936
Federal grants and contracts	29,284,922
State grants and contracts	85,634
Local grants and contracts	162,350
Non-governmental grants and contracts	5,372,205
Accrued interest	4,369,423
	53,779,982
Less allowance for doubtful accounts	(1,618,136)
Accounts receivable, net	**$ 52,161,846**

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 University ceased to participate in the programs.

As the University determines that loans are uncollectible, the loans are assigned to the federal agency administrating the loan programs.

NOTE 3 - RECEIVABLES, Continued

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

The State has authorized capital improvement bonds, research infrastructure bonds, state university infrastructure bonds and capital reserve fund appropriation bonds to fund improvements and expansion of state facilities. The University is 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, 2013 the University had $8,619,293 of outstanding state capital improvement bond authorization, $430,551 of outstanding research infrastructure bond authorization, $60,493 of outstanding state university infrastructure bond authorization and $6,971,474 of capital reserve fund appropriation. These funds are available from the State but have not been drawn down yet because the expenditures have not been incurred.

Notes Receivable - As authorized by South Carolina Code of Laws, the University may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation (the Foundation), a discretely presented component unit. Under the terms of the agreement, the University will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

During fiscal year 2013, the Foundation made a lump sum principal payment of $10,524,622. The remaining principal balance of $9,419,288 and the related cumulative accrued interest receivable of $2,909,818 respectively are included in notes receivable and accounts receivable, net. Interest payments of $1,663,954 were received from the Foundation in fiscal year 2013.

NOTE 4 - CAPITAL ASSETS

	June 30, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated				
Land and improvements	$ 79,343,268	$ 576,161	$ -	$ 79,919,429
Construction in progress	98,349,628	91,172,527	99,063,590	90,458,565
Works of art and historical treasures	19,611,884	2,608,199	-	22,220,083
Total capital assets not being depreciated	197,304,780	94,356,887	99,063,590	192,598,077
Other capital assets				
Land improvements	75,524,292	28,155,300	-	103,679,592
Buildings and improvements	1,346,164,821	54,214,896	18,332,451	1,382,047,266
Machinery, equipment and other	168,722,047	11,991,222	6,003,558	174,709,711
Vehicles	12,759,042	3,562,967	350,760	15,971,249
Intangibles	4,231,250	30,612,574	261,703	34,582,121
Total capital assets at historical cost	1,607,401,452	128,536,959	24,948,472	1,710,989,939
Less accumulated depreciation for				
Land improvements	19,135,388	4,160,683	-	23,296,071
Buildings and improvements	523,720,870	37,028,539	4,342,231	556,407,178
Machinery, equipment and other	127,655,731	10,879,017	5,675,107	132,859,641
Vehicles	9,911,621	1,042,033	350,760	10,602,894
Intangibles	3,533,069	223,584	230,502	3,526,151
Total accumulated depreciation	683,956,679	53,333,856	10,598,600	726,691,935
Other capital assets, net	923,444,773	75,203,103	14,349,872	984,298,004
Capital assets, net	**$ 1,120,749,553**	**$ 169,559,990**	**$ 113,413,462**	**$ 1,176,896,081**

NOTE 5 - PENSION PLANS

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

NOTE 5 - PENSION PLANS, Continued

South Carolina Retirement System - The majority of employees of the University are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). 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. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable 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 qualify for disability annuity benefits provided they have a minimum of eight years of credited service. 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.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death	
Ended	Rate	Contribution	Rate	Contribution
2013	10.450%	$26,289,000	0.150%	$377,000
2012	9.385%	$22,892,000	0.150%	$366,000
2011	9.240%	$22,069,000	0.150%	$358,000

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. 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.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 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 compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay 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. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death		Accidental Death	
Ended	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	$ 706,000	0.200%	$ 11,900	0.200%	$ 11,900
2012	11.385%	$ 617,000	0.200%	$ 10,900	0.200%	$ 10,900
2011	11.130%	$ 550,000	0.200%	$ 9,900	0.200%	$ 9,900

NOTE 5 - PENSION PLANS, Continued

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the University may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately $20,849,000 (excluding the surcharge) from the University as employer and approximately $13,966,000 from its employees as plan members.

Funding Policies - Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

The amounts paid by the University for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

For the fiscal year ended June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the University will be required to recognize a portion of the unfunded pension liability of the cost sharing 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 University contributes 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 statue to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately $20,794,000 and $18,368,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, 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, 2013 and 2012. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $238,000 and $233,000 for the years ended June 30, 2013 and 2012, respectively.

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

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

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

The University participates 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, will not be material.

The University had outstanding commitments under construction contracts of $71,052,837 for capital and $54,285,238 for noncapital projects. The University anticipates 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

2014	$ 2,504,691
2015	2,436,093
2016	1,280,349
2017	739,799
2018	709,475
2019-2023	3,290,412
2024-2028	3,250,000
2029-2030	1,191,667
Total minimum lease payments	**$ 15,402,486**

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2014-2030. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were $3,517,060 for fiscal year 2013. Of this amount, $466,050 was paid to other State agencies. In the current fiscal year, the University incurred expenses of $1,103,168 for office copier contingent rentals on a cost per copy basis.

The University also has 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 University paid $3,500,000, representing rent due for the entire term. As of June 30, 2013, the remaining unamortized prepaid balance related to the parking lease agreement was $2,400,000 with $100,000 reflected as a current asset.

NOTE 8 - LEASE OBLIGATIONS, Continued

The University also has a 36 month operating lease agreement for a storefront at 258 King Street in Charleston for $6,370 per month. In accordance with the terms of the lease, in fiscal year 2012, the University paid $229,320, representing rent due for the entire term. As of June 30, 2013, the remaining unamortized prepaid balance related to the lease agreement was $146,510 with $76,440 reflected as a current asset.

Capital Leases

Buildings and land held by the University under capital leases as of June 30, 2013:

	Cost	Accumulated Depreciation	Net
Buildings	$ 18,815,394	$ 2,485,910	$ 16,329,484
Land	270,000	-	270,000

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

2014	$ 1,539,011
2015	1,509,476
2016	1,519,643
2017	5,387,123
2018	1,108,529
2019-2023	5,124,340
2024-2028	4,992,261
2029-2031	2,684,967
Total minimum lease payments	23,865,350
Less amount representing interest	(7,168,124)
Present value of minimum lease payments	**$ 16,697,226**

Capital lease obligations consist of:

Agreement with USC Upstate Foundation for land and building, dated February 2010, payable in monthly principal payments of $6,500, with a fixed interest rate of 4.11%. This agreement expires in December 2019.	$ 444,263
Agreement with USC Upstate Foundation for land and building, dated August 2011, payable in monthly principal payments of $4,050, with a fixed interest rate of 3.57%. This agreement expires in August 2020.	343,821
Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from $30,000 to $80,000 with interest rates ranging from 5.085% to 6.815%. This agreement expires in March 2031.	15,909,142
	$ 16,697,226

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable – Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2013 Balance	Debt Retired in Fiscal Year 2013
State Institution Bonds					
Series 2002E	$ 17,085,000	3.5%	09/01/12	$ -	$ 805,000
Series 2003I	7,000,000	3.75%	10/01/13	330,000	315,000
Series 2006B	58,000,000	3.25% to 5.25%	04/01/26	41,895,000	2,380,000
Series 2009B	8,550,000	3.0% to 5.0%	04/01/29	7,160,000	340,000
Series 2011A Refunding	20,085,000	2.25% to 5.0%	03/01/22	18,160,000	1,730,000
Series 2011E	23,955,000	2.25% to 5.0%	03/01/31	22,270,000	855,000
Series 2012A Refunding	21,475,000	2.5% to 5.0%	04/01/23	19,540,000	1,935,000
Total State Institution Bonds				**109,355,000**	**8,360,000**
Revenue Bonds					
Series 2003B	5,500,000	3.5%	05/01/13	-	260,000
Series 2004A	30,900,000	5.375%	05/01/13	-	680,000
Series 2005A	12,400,000	3.725% to 5.0%	05/01/35	10,430,000	285,000
Series 2005A Refunding	48,075,000	4.0% to 5.0%	06/01/30	34,375,000	2,315,000
Series 2006A	13,995,000	4.0% to 4.375%	06/01/26	10,275,000	595,000
Series 2008A	64,335,000	3.25% to 5.25%	06/01/38	59,460,000	1,240,000
Series 2008A Athletic	27,395,000	4.0% to 5.5%	05/01/38	27,315,000	80,000
Series 2008B Athletic	2,455,000	5.4%	05/01/13	-	495,000
Series 2009A	28,920,000	3% to 5.0%	06/01/39	26,690,000	580,000
Series 2010A	28,510,000	3.0% to 5.0%	06/01/40	26,945,000	540,000
Series 2010A Athletic	65,855,000	4.0% to 5.0%	05/01/40	62,920,000	1,145,000
Series 2010B Refunding Athletic	12,840,000	3.0% to 5.0%	05/01/27	11,995,000	570,000
Series 2012	61,945,000	3.0% to 5.0%	05/01/35	61,945,000	-
Series 2012 Refunding	28,110,000	2.0% to 5.0%	05/01/34	28,110,000	-
Series 2012A Athletic	13,580,000	2.0% to 4.0%	05/01/42	13,335,000	245,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	37,185,000	3.0% to 5.0%	05/01/43	37,185,000	-
Total Revenue Bonds				**417,330,000**	**9,030,000**
Subtotal bonds payable				526,685,000	17,390,000
Plus unamortized bond premium				33,906,450	1,772,198
Less unamortized bond issue costs				(657,070)	(27,952)
Less unamortized loss on bond refunding				(5,208,151)	(395,832)
Total Bonds Payable				**$ 554,726,229**	**$ 18,738,414**

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The legal debt margin for state institution bonds shall not exceed ninety percent of tuition fees received from the preceding fiscal year.

Tuition fees used to calculate the University's debt service limit on bond indebtedness for the preceding year were $26,110,833, which results in a legal annual debt service at June 30, 2013 of $23,499,750. The annual debt service payments for the fiscal year were $13,291,148. Tuition revenue pledged in fiscal year 2013 was $27,777,552 for state institution bonds.

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

General revenue bonds are payable from a pledge of net revenues derived by the University 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 University 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 2013 were $15,882,087.

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 2013 were $1,585,049 of special student fees, $1,694,772 of special admission fees and $4,972,910 of athletic department revenues.

The University has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event such required payment has not been made, for a period equal to the final maturity of the bonds. Certain amounts of the bonds payable are callable at the option of the University.

The University believes it is in compliance with all related bond covenants of its issued debt.

On May 1, 2013 the University issued $37,185,000 in revenue bonds for the purchase and renovation of housing facilities.

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

	Principal	Interest	Total
State Institution Bonds			
2014	$ 8,510,000	$ 4,716,113	$ 13,226,113
2015	8,805,000	4,381,688	13,186,688
2016	9,205,000	3,996,400	13,201,400
2017	7,205,000	3,606,300	10,811,300
2018	7,520,000	3,277,013	10,797,013
2019-2023	40,460,000	10,760,325	51,220,325
2024-2028	21,995,000	3,530,206	25,525,206
2029-2031	5,655,000	539,538	6,194,538
Total	**$ 109,355,000**	**$ 34,807,583**	**$ 144,162,583**

	Principal	Interest	Total
Revenue Bonds			
2014	$ 9,940,000	$ 19,476,444	$ 29,416,444
2015	10,845,000	19,079,044	29,924,044
2016	12,595,000	18,641,719	31,236,719
2017	13,105,000	18,136,644	31,241,644
2018	13,295,000	17,581,106	30,876,106
2019-2023	74,625,000	78,760,100	153,385,100
2024-2028	86,990,000	60,223,281	147,213,281
2029-2033	93,690,000	38,972,438	132,662,438
2034-2038	79,170,000	16,676,950	95,846,950
2039-2043	23,075,000	2,079,575	25,154,575
Total	**$ 417,330,000**	**$ 289,627,301**	**$ 706,957,301**

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Notes Payable – Notes payable consisted of the following:

University note payable secured by printing press equipment, dated September 2007, payable in semi-annual installments of $43,008, matures September 2014, fixed interest rate of 3.6%.	$ 124,509
University note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of $31,458, matures December 2015, imputed fixed interest rate of 2.15%.	90,542
University note payable to acquire energy savings equipment and lighting retrofit, dated December 2008, payable in annual installments of $51,581 subject to amount drawn at any given time, matures April 2020, fixed interest rate of 3.00%.	319,306
University note payable for energy efficiency projects, dated June 2010, payable in annual installments of $7,168, at no interest, matures June 2015.	7,168
University note payable for energy efficiency projects, dated January 2011, payable in annual installments of $5,831, at no interest, matures January 2015.	11,495
University note payable for energy efficiency projects, dated September 2009, payable in annual installments of $3,289, at no interest, matures September 2014.	6,578
University note payable for energy efficiency projects, dated September 2010, payable in annual installments of $9,811, at no interest, matures September 2014.	19,623
University note payable for energy efficiency projects, dated December 2010, payable in annual installments of $17,566, at no interest, matures December 2013.	17,566
University note payable for energy efficiency projects, dated January 2011, payable in annual installments of $6,896, at no interest, matures January 2014.	6,896
	$ 603,683

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2014	$ 204,222	$ 15,340	$ 219,562
2015	134,469	10,455	144,924
2016	75,319	7,750	83,069
2017	45,830	5,752	51,582
2018	47,204	4,377	51,581
2019-2020	96,639	4,463	101,102
Total	**$ 603,683**	**$ 48,137**	**$ 651,820**

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
Bonds Payable:					
State Institution Bonds	$ 117,715,000	$ -	$ 8,360,000	$ 109,355,000	$ 8,510,000
Revenue Bonds	389,175,000	37,185,000	9,030,000	417,330,000	9,940,000
Subtotal Bonds Payable	506,890,000	37,185,000	17,390,000	526,685,000	18,450,000
Unamortized Bond Premiums	31,724,502	3,954,146	1,772,198	33,906,450	1,924,669
Unamortized Bond Discounts	(685,022)	-	(27,952)	(657,070)	(28,745)
Unamortized Loss on Bond Refunding	(5,603,983)	-	(395,832)	(5,208,151)	(394,812)
Total Bonds Payable	532,325,497	41,139,146	18,738,414	554,726,229	19,951,112
Notes Payable	1,466,660	50,298	913,275	603,683	204,222
Total Bonds and Notes Payable	**$ 533,792,157**	**$ 41,189,444**	**$ 19,651,689**	**$ 555,329,912**	**$20,155,334**
Capital Lease Obligations	$ 17,291,288	$ -	$ 594,062	$ 16,697,226	$ 637,803
Accrued compensated absences	$ 28,703,360	$ 17,896,333	$ 15,154,024	$ 31,445,669	$16,037,292

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

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (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 University of South Carolina Upstate Foundation; the University of South Carolina Upstate Capital Development Foundation, Inc.; and the Educational Foundation of the University of South Carolina – Lancaster are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the University, they are considered component units of the University and are discretely presented in the University's financial statements accordingly as non-governmental or governmental reporting entities.

NOTE 11 - COMPONENT UNITS, Continued

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

Governmental Discretely Presented Component Units

The University of South Carolina Research Foundation (the Foundation) exists exclusively to facilitate 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 University to resume its historic role of directly processing new federal grant and contract transactions. The University expects that over a period of five 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 USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine. The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3). In order to conform to the University fiscal year end and other operational reasons, the Trust changed the end of its financial reporting period to June 30. This change was effective for the inclusion in the financial statements of the University on June 30, 2013. 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.

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 University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. The University receives funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. The University also pays the Foundation for the lease of real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

NOTE 11 - COMPONENT UNITS, Continued

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the University of South Carolina. 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 University. The University receives 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 University; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of $183,455,827 or 52% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation (the Foundation) was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The University receives funds for scholarships, reimbursement of personnel services, fringe benefit and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of $23,579,636 or 43% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

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 University, helping graduates keep in touch with one another, and providing programs of continuing education. The University receives funds for scholarships from the Association and provides office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The USC Upstate Foundation (the Foundation) was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate. The University receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the University. Complete financial statements for the Foundation can be obtained at USC Upstate Foundation, 800 University Way, Spartanburg, SC 29303.

The USC Upstate Capital Development Foundation, Inc. (the Foundation) was established to accept real property donated to the University of South Carolina Upstate, serve as the purchasing agent for property on behalf of the USC Upstate that is integral to the growth of the campus, and to manage property under leasing agreements to the University. Complete financial statements for the Foundation can be obtained at USC Upstate Capital Development Foundation, 800 University Way, Spartanburg, SC 29303.

The USC Upstate Foundation transferred CPF Properties II, LLC (approximately $6.4 million) to the USC Upstate Capital Development Foundation, Inc. effective June 30, 2013, however the activity for CPF Properties II, LLC for the current year is reflected in the financial statements for the USC Upstate Foundation.

NOTE 11 - COMPONENT UNITS, Continued

The Educational Foundation of the University of South Carolina - Lancaster (the Foundation) operates for the benefit and support of the University of South Carolina at Lancaster. 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 University. The University receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University. In order to conform to the University fiscal year end, the Foundation changed the end of its financial reporting period to June 30. Although this change was effective for inclusion in the financial statements of the University on June 30, 2013, audited financial statements were not available for the reporting period ended June 30, 2013. The most recent financial statements available at the time of issuance of the University financial statements were for the fiscal year ended December 31, 2012. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

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

Funds Received from Component Units

USC Research Foundation	$	26,418,321
USC School of Medicine Educational Trust & Clinical Faculty Practice		2,045,896
USC Development Foundation		858,455
USC Educational Foundation		19,114,858
USC Business Partnership Foundation		63,939
Greater USC Alumni Foundation		608,023
Educational Foundation of USC Lancaster		85,247
USC Upstate Foundation		178,828
	$	**49,373,567**

The majority of the University of South Carolina Research Foundation revenues are recorded by the University 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 $10,469,995 due from the University of South Carolina Research Foundation at June 30, 2013.

Funds Paid to Component Units

USC Research Foundation	$	158,972
USC School of Medicine Educational Trust & Clinical Faculty Practice		3,299,378
USC Development Foundation		382,225
USC Educational Foundation		51,910
USC Business Partnership Foundation		35,242
Greater USC Alumni Association		10,652
USC Upstate Foundation		43,201
USC Upstate Capital Development Foundation		84,398
Educational Foundation of USC Lancaster		2,520
	$	**4,068,498**

NOTE 12 - RELATED PARTIES

There are several separately charted legal entities which do not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, to be treated as component units of the University. These entities are the local higher education commissions. While they are not financially accountable to the University, these organizations exist primarily to provide financial assistance and other support to the University system campuses and the educational programs. The activities of these entities are not included in the University's financial statements. However, the University's statements for the year ended June 30, 2013 include significant transactions between them and the University which are as follows:

Aiken County Commission for Higher Education Commission - The Aiken County Commission for Higher Education (the Commission) was created under Act 103 of the 1961 Session of the General Assembly of South Carolina. The Commission is composed of eight members who are appointed by the Governor on the recommendation of a majority of the Aiken County Legislative Delegation. In addition, the Superintendent of Education for Aiken County and the Chair of the Aiken Commission for Technical Education are ex-officio members of the Commission. The Commission's purpose is the establishment and maintenance of an institution of higher education in Aiken County and it is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and generally, to take such actions in its name necessary to secure for Aiken County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Aiken County to accomplish these objectives. During the year ended June 30, 2013, the Commission made grants to the University of South Carolina Aiken (USC Aiken) totaling $100,000 for campus maintenance and enhancements. USC Aiken provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. The Commission leases its land and buildings to USC Aiken for $1 annually. At June 30, 2013, the Commission had a net position of $1,612,973.

Beaufort Jasper Higher Education Commission - The Beaufort Jasper Higher Education Commission (the Commission) was created by Act 59 in the 2004 session of the General Assembly of South Carolina. The Commission is composed of nine members who are appointed by the Governor on the recommendation of a majority of the Beaufort and Jasper County Legislative Delegation. The Commission's purpose is to contract with institutions of higher education for the establishment and operation of education centers in Beaufort and Jasper counties and it is empowered to make binding agreements for the furnishing of suitable facilities and accommodations for the education centers. The Commission receives an annual appropriation from Beaufort and Jasper Counties to accomplish these objectives. During the year ended June 30, 2013, a gift of $1,781,000 was paid from the Commission to the University of South Carolina Beaufort (USC Beaufort). Of this amount, $112,356 was reimbursement of Commission salaries paid by USC Beaufort, $81,000 was development reimbursement, and the remaining funds were gifted for general operating purposes. The Commission allows use of its land and buildings for USC Beaufort housing, dining, and bookstore services. At June 30, 2013, the Commission had a net position of $8,011,070.

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, 2013, the Commission received an annual appropriation of $1,301,493. The Commission disbursed $1,050,000 to USC Lancaster for operations and maintenance of the physical plant and $7,549 to vendors for insurance, professional services, and commencement expenses. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2013, the Commission had a net position of $482,759.

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 $88,331 for the fiscal year ended June 30, 2013. 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, 2013, the Commission had a net position of $121,757.

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, 2013, the Commission made payments to USC Sumter totaling $262,950 for the operation and maintenance of the campus. At June 30, 2013, the Commission had a net position of $293,947.

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 $157,419 to accomplish these objectives. During the year ended June 30, 2013, the Commission made grants to the University of South Carolina Union (USC Union) totaling $399,553 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, 2013, the Commission had a net position of $2,270,429.

NOTE 12 - RELATED PARTIES, Continued

Spartanburg County Commission for Higher Education - The Spartanburg County Commission for Higher Education (the Commission) was created under Act 36 of the 1967 Session of the General Assembly of South Carolina. The Commission is composed of fifteen members who are appointed by the Governor on the recommendation of a majority of the Spartanburg County Legislative Delegation. The Commission is responsible for the encouragement of higher education in Spartanburg County and adjacent areas and, more specifically, the establishment in Spartanburg County 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 Spartanburg County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Spartanburg County to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Upstate (USC Upstate) of $5,708 for the fiscal year ended June 30, 2013. The Commission controls land owned by the County and provides the land to USC Upstate at no cost. USC Upstate provides accounting and record maintenance services to the Commission at no charge. At June 30, 2013, the Commission had a net position of $820,000.

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

NOTE 13 - RISK MANAGEMENT, Continued

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 never exceeded the University's insurance coverage.

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

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

NOTE 14 - BIOMASS FACILITY

In August 2004, the University entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility is to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately $19.2 million. Since being placed in service the facility has operated intermittently and is inoperable as of the date of this report. The University and JCI have determined that the existing technology employed to operate the facility is not viable and that an alternate technology must be utilized to make the facility functional.

University Administration has evaluated the facility for potential impairment and has written off the remaining net book of $13,990,218 as of June 30, 2013. This impairment is included within the "Loss on disposal of capital assets" on the Statement of Revenues, Expenses and Changes in Net Position. The University continues negotiation with Johnson Controls, Inc. regarding financial settlement for the energy facility and expects final resolution in 2014.

NOTE 15 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$234,958,276	$ 68,621,914	$ 34,036,367	$ 46,682	$ 672,750	$ -	$ 338,335,989
Research	60,881,235	20,601,770	35,176,415	5,144	359,619	-	117,024,183
Public service	34,133,130	9,044,859	13,707,522	9,409	266,695	-	57,161,615
Academic support	46,556,581	12,936,381	22,529,977	26,507	22,264	-	82,071,710
Student services	35,279,379	9,361,857	21,502,792	826,647	95,071	-	67,065,746
Institutional support	43,709,078	12,696,352	9,268,286	174,474	22,300	-	65,870,490
Operation & plant maintenance	26,199,113	8,637,240	40,814,045	21,480,457	2,346	-	97,133,201
Auxiliary enterprises	43,007,211	9,222,610	58,480,574	8,521,390	676,634	-	119,908,419
Scholarships and fellowships	88,192	1,221,820	190,754	-	17,842,553	-	19,343,319
Depreciation	-	-	-	-	-	53,333,856	53,333,856
Total operating expenses	**$524,812,195**	**$152,344,803**	**$235,706,732**	**$31,090,710**	**$ 19,960,232**	**$53,333,856**	**$1,017,248,528**

NOTE 16 - ENDOWMENTS AND SIMILAR FUNDS

The University's endowment funds and type consist of the following:

Net Position Classification	True Endowment	Quasi Endowment	Total
Restricted - nonexpendable	$ 73,766,341	$ -	$ 73,766,341
Restricted - expendable			
Scholarships, research, instruction and other	-	1,818,049	1,818,049
Unrestricted	-	34,723,947	34,723,947
Total	**$ 73,766,341**	**$ 36,541,996**	**$ 110,308,337**

UNIVERSITY OF SOUTH CAROLINA
Schedule of Non-Capital and Capital State Appropriations
For the year ended June 30, 2013

The following supplemental information is provided at the request of the State of South Carolina Office of Comptroller General.

Non-Capital Appropriations	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	$ 122,145,340
From Budget and Control Board	
Pay Plan, Retirement and Employer Contributions for Health/Dental Insurance	6,163,023
Supplemental Appropriations (Proviso 90.20.38)	321,862
From Commission on Higher Education	
Technology Initiative	1,573,177
Academic Endowment Incentive	39,354
Deferred Maintenance	5,694,201
Transfer from Department of Revenue - EIA	464,172
Total non-capital appropriations recorded as current year revenue	**$ 136,401,129**
Capital Appropriations	
Capital Improvement Bond Proceeds:	
Proceeds drawn during the current fiscal year	$ 3,897,494
Plus: Expenses incurred but not drawn during current fiscal year	1,067,456
Less: Proceeds drawn but not expended during current fiscal year	(60,754)
Total capital improvement bond proceeds recorded as current year revenue	4,904,196
Research Infrastructure Bond Proceeds:	
Proceeds drawn during the current fiscal year	-
Plus: Expenses incurred but not drawn during current fiscal year	980,542
Less: Proceeds drawn but not expended during current fiscal year	(46,427)
Total research infrastructure bond proceeds recorded as current year revenue	934,115
University Infrastructure Bond Proceeds:	
Proceeds drawn during the current fiscal year	107,837
Plus: Expenses incurred but not drawn during current fiscal year	1,042
Less: Proceeds drawn but not expended during current fiscal year	(1,042)
Total university infrastructure bond proceeds recorded as current year revenue	107,837
Capital Reserve Fund Appropriations:	
Proceeds drawn during the current fiscal year	5,484,494
Plus: Expenses incurred but not drawn during current fiscal year	-
Less: Proceeds drawn but not expended during current fiscal year	-
Total capital reserve fund proceeds recorded as current year revenue	5,484,494
Total capital appropriations recorded as current year revenue	**$ 11,430,642**

FY 2015 Elected Officials Budget Template - Auditor

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
Expenditures				
Personnel	476,688	537,117	537,117	534,403
Purchased Services	37,987	15,916	30,534	41,500
Supplies	5,888	5,500	5,500	16,500
Total Expenditures	$ 520,563	$ 558,533	$ 573,151	$ 592,403
FTEs:		13	13	13

FY2015 Elected Officials Budget Combined Clerk of Court 1030 and Family Court 1031

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
General Fund Revenues	$ 594,840	$ 673,419	$ 655,500	$ 615,500
Expenditures				
Personnel	732,533	825,461	825,461	873,610
Purchased Services	227,748	284,150	267,950	285,150
Supplies	24,309	30,907	33,207	30,907
Capital	-	140,000	138,649	-
Subsidies	-	-	-	-
Contingency	-	-	-	-
Unclassified	-	-	-	-
Transfers Out[1]	-	-	-	-
Total Expenditures	$ 984,590	$ 1,280,518	$ 1,265,267	$ 1,189,667

FTEs: 21

FY2015 Elected Officials Budget Clerk of Court 1030

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
General Fund Revenues	$ 203,794	$ 276,419	$ 279,000	$ 239,000
Expenditures				
Personnel	573,446	639,744	639,744	646,938
Purchased Services	212,618	240,000	227,800	240,500
Supplies	13,156	18,200	20,500	18,200
Capital	-	140,000	138,649	-
Subsidies	-	-	-	-
Contingency	-	-	-	-
Unclassified	-	-	-	-
Transfers Out[1]	-	-	-	-
Total Expenditures	$ 799,220	$ 1,037,944	$ 1,026,693	$ 905,638

FTEs: 15

1 -N/A

FY2015 Elected Officials Budget Family Court 1031

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
General Fund Revenues	$ 391,046	$ 397,000	$ 376,500	$ 376,500
Transferred from Unit Cost	13,420			44,980
Expenditures				
Personnel	159,088	185,717	185,717	226,672
Purchased Services	15,130	44,150	40,150	44,650
Supplies	11,152	12,707	12,707	12,707
Capital	-	-	-	-
Subsidies	-	-	-	-
Contingency	-	-	-	-
Unclassified	-	-	-	-
Transfers Out[1]	-	-	-	-
Total Expenditures	$ 185,370	$ 242,574	$ 238,574	$ 284,029

FTEs: 6

1 -N/A

FY2015 Elected Officials Budget Clerk of Court IV-D Unit Cost 2101

	FY 2013 Actual	FY 2014 Budget	FY 2014 Projected	FY 2015 Proposed
Special Revenues	$ 250,805	$ 250,000	$ 250,000	$ 250,000
Expenditures				
Personnel	194,837	201,600	201,600	156,620
Purchased Services	39,316	44,100	44,100	44,100
Supplies	3,232	4,300	4,300	4,300
Capital	-	-	-	-
Subsidies	-	-	-	-
Contingency	-	-	-	-
Unclassified		-	-	-
Transfers Out[1]	13,420	-	-	44,980
Total Expenditures	$ 250,805	$ 250,000	$ 250,000	$ 250,000

FTEs: 3

1 -End of Fiscal Year Remaining Balance is Transferred to General Fund