UNIVERSITY OF SOUTH CAROLINA - Beaufort

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2020

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 and the discretely presented component unit 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, 2020, 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 opinions 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. The financial statements of the Beaufort-Jasper Higher Education Commission were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the Campus as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of the Campus' Proportionate Share of the Net Pension Liability, the Schedule of the Campus' Contributions Related to the Pension Liability, the Schedule of the Campus' Proportionate Share of the Net OPEB Liability, and the Schedule of the Campus' Contributions Related to the OPEB Liability, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 October 23, 2020, 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
October 23, 2020

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 2020. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2020, with comparative information for the fiscal year ended June 30, 2019. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2020 and 2019 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion will not include the discretely presented component unit, Beaufort-Jasper Higher Education Commission.

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 is 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.

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

The COVID-19 fiscal impact during fiscal year 2020 was primarily in two areas: 1) refunds given to students for housing and dining and 2) costs for personal protective equipment (PPE), cleaning and sanitation and virus testing and tracing. Refunds to students were $2.0 million for the Campus, and mitigation costs exceeded $890 thousand. The Campus addressed this impact by implementing travel restrictions and hiring freezes, renegotiating contracts and eliminating contracts. Federal CARES Act funds as well as FEMA Disaster Relief funds are available to mitigate some of the refunds and additional costs.

STATEMENT OF NET POSITION

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

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

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the 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 is only available for investment purposes.
    b. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- *Unrestricted net position* - Represents resources available to the institution for any lawful purpose of the institution.

Summary of Net Position

	2020	2019	Increase/ (Decrease)	Percent Change
ASSETS				
Current assets	$ 12,256,643	$ 12,426,185	$ (169,542)	-1.36%
Capital assets, net	55,778,112	57,285,284	(1,507,172)	-2.63%
Other noncurrent assets	79,000	79,000	-	0.00%
Total assets	68,113,755	69,790,469	(1,676,714)	-2.40%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to net OPEB liability	3,467,699	1,813,991	1,653,708	91.16%
Deferred outflows related to net pension liability	2,993,612	3,616,495	(622,883)	-17.22%
Total deferred outflows of resources	6,461,311	5,430,486	1,030,825	18.98%
LIABILITIES				
Current liabilities	1,996,266	2,786,850	(790,584)	-28.37%
Noncurrent liabilities	53,301,551	51,577,258	1,724,293	3.34%
Total liabilities	55,297,817	54,364,108	933,709	1.72%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	2,978,407	2,061,383	917,024	44.49%
Deferred inflows related to net OPEB liability	146,247	126,681	19,566	15.45%
Total deferred inflows of resources	3,124,654	2,188,064	936,590	42.80%
NET POSITION				
Net investment in capital assets	53,408,664	54,718,925	(1,310,261)	-2.39%
Restricted - nonexpendable	79,000	79,000	-	0.00%
Restricted - expendable	1,653,112	1,596,626	56,486	3.54%
Unrestricted	(38,988,181)	(37,725,768)	(1,262,413)	3.35%
TOTAL NET POSITION	**$ 16,152,595**	**$ 18,668,783**	**$ (2,516,188)**	**-13.48%**

- Accounts receivable, which is a part of current assets, decreased by $597 thousand or by 52 percent due to the efforts of a third-party collection agency for student accounts, with an offsetting increase in cash.

- Capital assets decreased $1.5 million as a result of regular scheduled depreciation.

- Deferred outflows of resources consist of the Campus' contributions after the measurement date and differences between the actual and expected experience in relation to the net pension liability recorded for the Campus' proportionate share of the State of South Carolina's SCRS and PORS net pension liability, related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 5 - Pension Plans for more information. Also included are the Campus' contributions after the measurement date and differences between the actual and expected experience in relation to Post-Employment Benefits Other Than Pensions (OPEB) recorded for the Campus' proportionate share of the State's net health and long-term disability liability related to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 6 - Postemployment and Other Employee Benefits for more information.

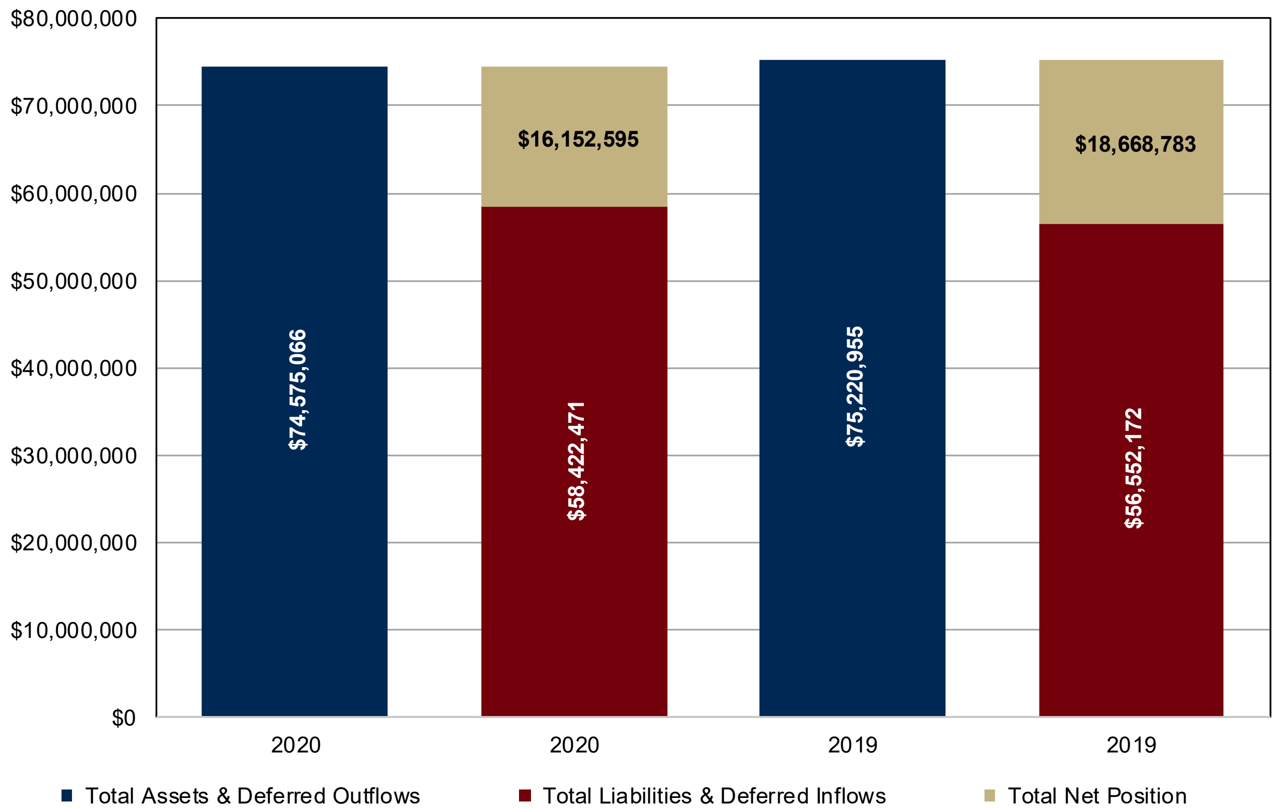
- Current liabilities decreased $791 thousand due to the following: decreases in accounts payable, a decrease in retainage payable since the Campus had no pending construction projects, and a reduction in funds held for others.

- The increase in noncurrent liabilities is primarily attributable to an increase of $1.2 million due to the change in the Campus' proportionate share of the State's net OPEB liability and an increase of $598 thousand due to the change in the Campus' proportionate share of the State's net pension liability.

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

- The net position of the Campus decreased during the year by $2.5 million. Considering the Campus financial position excluding the pension and OPEB liabilities, the unrestricted net position decreased by $777 thousand, or 1%.

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



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the 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.

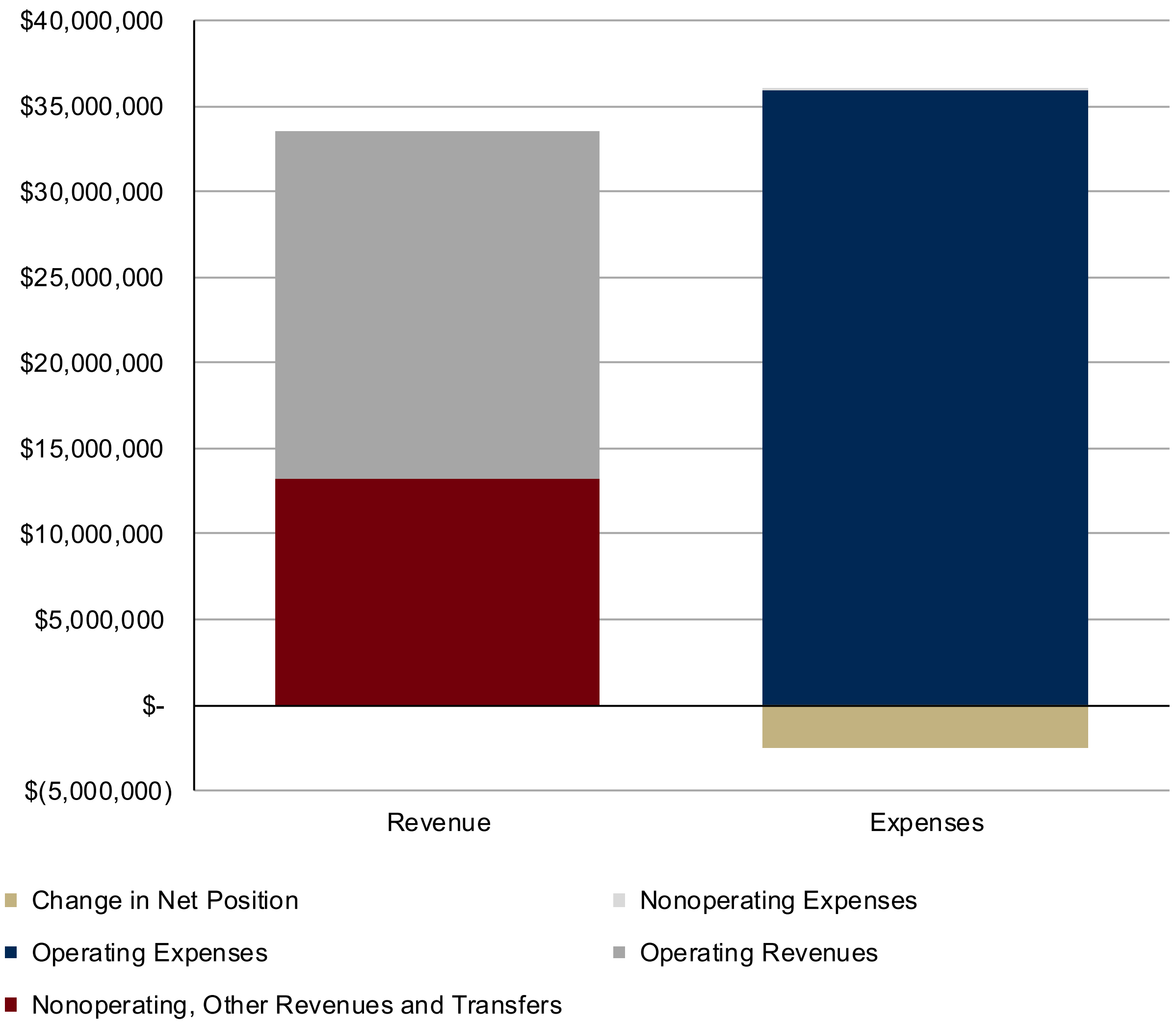
UNIVERSITY OF SOUTH CAROLINA - Beaufort
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2020	2019	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student tuition and fees	$ 23,775,664	$ 24,067,610	$ (291,946)	-1.21%
Less: scholarship allowance	(10,732,116)	(10,731,131)	(985)	0.01%
Federal grants and contracts	1,055,906	539,543	516,363	95.70%
State grants and contracts	4,704,885	4,596,312	108,573	2.36%
Local grants and contracts	452,503	364,602	87,901	24.11%
Nongovernmental grants and contracts	88,272	190,404	(102,132)	-53.64%
Sales and services of educational and other activities	931,012	1,203,070	(272,058)	-22.61%
Sales and services of auxiliary enterprises	10,160	11,115	(955)	-8.59%
Other fees	102,955	106,248	(3,293)	-3.10%
Total operating revenues	20,389,241	20,347,773	41,468	0.20%
NONOPERATING REVENUES				
State appropriations	5,978,156	4,148,894	1,829,262	44.09%
Federal grants	4,480,945	4,285,256	195,689	4.57%
Gifts	2,390,527	2,536,702	(146,175)	-5.76%
Investment income	127,962	113,158	14,804	13.08%
Endowment income	2,731	2,814	(83)	-2.95%
Total nonoperating revenues	12,980,321	11,086,824	1,893,497	17.08%
Total revenues	33,369,562	31,434,597	1,934,965	6.16%
OPERATING EXPENSES				
Salaries and wages	16,573,726	15,795,431	778,295	4.93%
Fringe benefits	8,484,758	7,475,868	1,008,890	13.50%
Services and supplies	5,704,458	5,313,820	390,638	7.35%
Utilities	1,111,518	1,023,641	87,877	8.58%
Scholarships and fellowships	2,017,368	995,878	1,021,490	102.57%
Depreciation expense	2,051,198	1,607,850	443,348	27.57%
Total operating expenses	35,943,026	32,212,488	3,730,538	11.58%
NONOPERATING EXPENSES				
Loss on disposal of capital assets	12,987	3,296	9,691	294.02%
Interest on capital asset related debt	97,897	88,823	9,074	10.22%
Total nonoperating expenses	110,884	92,119	18,765	20.37%
Total expenses	36,053,910	32,304,607	3,749,303	11.61%
Other revenues and transfers	168,160	9,629,774	(9,461,614)	-98.25%
Change in net position	(2,516,188)	8,759,764	(11,275,952)	-128.72%
Net position, beginning of year	18,668,783	9,909,019	8,759,764	88.40%
NET POSITION, END OF YEAR	**$ 16,152,595**	**$ 18,668,783**	**$ (2,516,188)**	**-13.48%**

Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2020



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

- An increase of $42 thousand in total operating revenues is due to the following:
  - Student tuition decreased $374 thousand due to a slight decline in enrollment and was offset by an increase in lab fees of $82 thousand.
  - Federal grant revenue increased due to $653 thousand in federal CARES act funds received for student emergency grants.

- An increase of $3.7 million in total operating expenses is primarily due to the following:
  - Salaries and fringe benefits increased $1.8 million due to the 2 percent salary increase as well as an increase in fringe benefits of $352 thousand primarily due to changes related to net pension and OPEB liabilities.
  - The scholarships and fellowships increase of $1.0 million is primarily due to $653 thousand in federal CARES act student emergency grants.
- The decrease of $9.5 million in other revenues and transfers is primarily due to a decrease in capital grants and gifts of $8.1 million which reflects the decrease in funding from the Town of Hilton Head Island for the Hilton Head Hospitality Management project that was completed in the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

The change in capital assets was limited to a decrease due to depreciation. No other construction or renovations occurred during the fiscal year.

The Campus' indebtedness consists of bonds and notes payable of $2.2 million. No additional bonds were issued during the fiscal year.

For more detailed information on capital asset and debt activity please refer to Note 4 – *Capital Assets*, Note 9 – *Bonds Payable*, and Note 10 – *Long-Term Liabilities* in the Notes to the Financial Statements.

ECONOMIC OUTLOOK

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

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

For fiscal year 2021, the Campus did not have a tuition increase.

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Statement of Net Position
As of June 30, 2020

ASSETS	
Current assets:	
Cash and cash equivalents	$ 9,999,501
Restricted - cash and cash equivalents	1,597,233
Accounts receivable, net	549,099
Prepaid items	110,810
Total current assets	12,256,643
Noncurrent assets:	
Restricted - cash and cash equivalents	79,000
Capital assets, net of accumulated depreciation	55,778,112
Total noncurrent assets	55,857,112
Total assets	68,113,755
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to net OPEB liability	3,467,699
Deferred outflows related to net pension liability	2,993,612
Total deferred outflows of resources	6,461,311
LIABILITIES	
Current liabilities:	
Accounts payable	134,131
Retainage payable	2,060
Accrued interest payable	27,990
Accrued payroll and related liabilities	150,835
Accrued compensated absences - current portion	764,648
Capital lease obligations - current portion	38,077
Bonds and notes payable - current portion	172,585
Unearned revenues	475,213
Deposits	41,250
Funds held for others	189,477
Total current liabilities	1,996,266
Noncurrent liabilities:	
Accrued compensated absences	84,961
Capital lease obligations	112,353
Bonds and notes payable	2,044,374
Net OPEB liability	26,445,708
Net pension liability	24,614,155
Total noncurrent liabilities	53,301,551
Total liabilities	55,297,817
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to net OPEB liability	2,978,407
Deferred inflows related to net pension liability	146,247
Total deferred inflows of resources	3,124,654
NET POSITION	
Net investment in capital assets	53,408,664
Restricted for:	
Nonexpendable	79,000
Expendable	
Scholarships, research, instruction, and other	369,170
Loans	314
Capital projects	1,231,228
Debt service	52,400
Unrestricted	(38,988,181)
Total net position	**$ 16,152,595**

See Notes to the Financial Statements

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

OPERATING REVENUES	
Student tuition and fees ($293,386 pledged for bonds)	$ 23,775,664
Less: scholarship discounts and allowances	(10,732,116)
Federal grants and contracts	1,055,906
State grants and contracts	4,704,885
Local grants and contracts	452,503
Nongovernmental grants and contracts	88,272
Sales and services of educational and other activities	931,012
Sales and services of auxiliary enterprises	10,160
Other fees	102,955
Total operating revenues	20,389,241
OPERATING EXPENSES	
Salaries and wages	16,573,726
Fringe benefits	8,484,758
Services and supplies	5,704,458
Utilities	1,111,518
Scholarships and fellowships	2,017,368
Depreciation expense	2,051,198
Total operating expenses	35,943,026
Operating loss	(15,553,785)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	5,978,156
Federal grants	4,480,945
Gifts	2,390,527
Investment income	127,962
Endowment income	2,731
Loss on disposal of capital assets	(12,987)
Interest on capital asset related debt	(97,897)
Net nonoperating revenues	12,869,437
Loss before other revenues	(2,684,348)
State capital appropriations	500,000
Capital grants and gifts	308,311
Transfers (to)/from other campuses, net	(640,151)
Change in net position	(2,516,188)
NET POSITION, BEGINNING OF YEAR	18,668,783
NET POSITION, END OF YEAR	**$ 16,152,595**

See Notes to the Financial Statements

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

OPERATING ACTIVITIES	
Student tuition and fees	$ 13,081,157
Research grants and contracts	6,131,687
Sales and services of educational and other activities	846,940
Sales and services of auxiliary enterprises	10,160
Inflows from federal direct student loans	11,859,132
Outflows from federal direct student loans	(11,859,132)
Payments to employees for services	(16,523,972)
Payments to employees for benefits	(6,745,327)
Payments to suppliers	(7,177,424)
Payments to students for scholarships and fellowships	(2,017,368)
Other receipts	102,957
Inflows from agency funds	608,697
Outflows from agency funds	(942,001)
Net cash used by operating activities	(12,624,494)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	5,978,156
Federal grants	4,480,945
Gifts	2,433,378
Transfers to other campuses, net	(640,151)
Net cash provided by noncapital financing activities	12,252,328
CAPITAL AND RELATED FINANCING ACTIVITIES	
State capital appropriations	500,000
Capital grants and gifts	986,009
Purchase and construction of capital assets	(552,515)
Principal paid on capital asset related debt	(182,414)
Interest paid on capital asset related debt	(106,064)
Net cash provided by capital and related financing activities	645,016
INVESTING ACTIVITIES	
Investment income	124,569
Endowment income	2,731
Net cash provided by investing activities	127,300
Net increase (decrease) in cash and cash equivalents	400,150
Cash and cash equivalents, beginning of year	11,275,584
Cash and cash equivalents, end of year	**$ 11,675,734**
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	$ 9,999,501
Restricted - cash and cash equivalents, current	1,597,233
Restricted - cash and cash equivalents, noncurrent	79,000
	$ 11,675,734

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

Reconciliation of net operating loss to net cash used by operating activities	
Operating loss	$ (15,553,785)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,051,198
Accrued benefits related to net pension liability	1,739,292
Change in current assets and liabilities:	
Accounts receivable, net	(133,041)
Prepaid items	(27,168)
Accounts payable	(334,280)
Accrued payroll	(60,095)
Accrued benefits	139
Accrued compensated absences	109,849
Unearned revenues	(53,757)
Deposits	(29,543)
Funds held for and due from others	(333,303)
Net cash used by operating activities	**$ (12,624,494)**
NONCASH TRANSACTIONS	
Gifts of capital assets reducing proceeds of capital grants and gifts	**$ 12,743**
Net change in capital grants and gifts receivable and unearned revenues	**$ (690,442)**
Loss on disposal of capital assets, net	**$ (12,987)**
Capital assets acquired through capital leases	**$ 151,648**

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Beaufort-Jasper Higher Education Commission
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2020

ASSETS	
Current assets	
Cash and cash equivalents	$ 4,735,538
Restricted cash and cash equivalents	500,000
Investments and security deposits	1,561,628
Patient and other accounts receivable, net	501,133
Prepaid items and deposits	217,591
Total current assets	7,515,890
Noncurrent assets	
Capital assets, net of accumulated depreciation	48,259,810
Total assets	55,775,700
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on debt refunding	583,885
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	408,463
Accrued compensated balances	21,000
Current portion of long term debt	2,362,769
Total current liabilities	2,792,232
Noncurrent liabilities	
Noncurrent portion of long term debt	33,536,993
Total liabilities	36,329,225
NET POSITION	
Net investment in capital assets	12,995,013
Restricted for capital projects and debt service	500,000
Unrestricted	6,535,347
Total net position	**$ 20,030,360**

See Notes to the Financial Statements

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Beaufort-Jasper Higher Education Commission
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020

REVENUES		
Operating revenues		
Housing	$	5,577,727
Dining		2,434,972
Other operating revenues		201,283
Total operating revenues		8,213,982
EXPENSES		
Operating expenses		
Salaries and administrative expenses		813,145
Services and supplies		5,201,561
Depreciation and amortization		1,667,133
Total operating expenses		7,681,839
Operating income (loss)		532,143
NONOPERATING REVENUES (EXPENSES)		
Private gifts and donations		(1,908,280)
Interest and investment income		59,293
County appropriations		2,318,016
Interest on capital asset debt		(755,338)
Capital Gifts		530,000
Net nonoperating revenues (expenses)		243,691
Change in net position		775,834
NET POSITION, BEGINNING OF YEAR		19,254,526
NET POSITION, END OF YEAR	**$**	**20,030,360**

See Notes to the Financial 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. 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 Campus and one other related entity as a discretely presented component unit. Additional information on the discretely presented component unit is included in Note 11.

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

Financial Statements - The financial statement presentation for the Campus 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 Campus' 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.

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

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

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

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

Capital Assets - Capital assets are recorded at cost at the date of acquisition. Donated capital assets, donated works of art, historical treasures and similar assets are recorded at acquisition value. The 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 3 to 60 years for buildings and improvements and land improvements; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month of disposition.

The 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 2020.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 that will not be paid within the next fiscal year; and (3) net pension and OPEB liabilities.

Deferred Outflows of Resources - The consumption of net position that is applicable to future reporting periods. The Campus' deferred outflows of resources consist of decreases in net pension and OPEB liabilities that were not included in expenses. Also, employer contributions subsequent to the measurement date of the net pension and OPEB liabilities are reported as deferred outflows of resources.

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

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 Campus' 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 Campus may be subject to taxation as unrelated business income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported with related scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the 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 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 Campus had no rebatable arbitrage liability at June 30, 2020.

Donor-Restricted Endowments - Endowments are subject to restrictions requiring that the principal be invested and that only the income be used for specific purposes. If a donor has not provided specific timing instructions, state law permits the Board of Trustees to authorize for expenditure the endowment's net appreciation. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. The Campus has a total return policy for authorizing and spending endowment income.

At June 30, 2020, $65,357 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other,* represented cumulative net appreciation of donor-restricted endowments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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	
Cash and cash equivalents (current)	$ 9,999,501
Restricted cash and cash equivalents (current) for:	
Debt service	79,600
Scholarship, research, instruction, and other	369,170
Campus administered loans	314
Capital projects	1,148,149
	1,597,233
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	79,000
	79,000
Total	**$ 11,675,734**
Notes	
Cash on hand	$ 1,725
Deposits held by State Treasurer	11,674,009
Total	**$ 11,675,734**

NOTE 2 - CASH AND CASH EQUIVALENTS, Continued

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

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2020, $102,611 of the $11,674,009 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

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

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	$	320,937
Federal grants and contracts		111,157
State grants and contracts		53,537
Local grants and contracts		118,494
Nongovernmental grants and contracts		24,478
Accrued interest		21,381
		649,984
Less allowance for doubtful accounts		(100,885)
Accounts receivable, net	**$**	**549,099**

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, 2019	Additions	Reductions	June 30, 2020
Capital assets not being depreciated				
Land	$ 4,697,887	$ -	$ -	$ 4,697,887
Construction in progress	-	146,277	146,277	-
Works of art and historical treasures	62,026	-	-	62,026
Total capital assets not being depreciated	4,759,913	146,277	146,277	4,759,913
Other capital assets				
Land improvements	6,668,330	-	-	6,668,330
Buildings and improvements	63,590,246	145,727	-	63,735,973
Machinery, equipment and other	2,180,343	297,125	126,499	2,350,969
Vehicles	479,327	114,161	57,984	535,504
Total capital assets at historical cost	72,918,246	557,013	184,483	73,290,776
Less accumulated depreciation for				
Land improvements	2,520,324	185,963	-	2,706,287
Buildings and improvements	16,115,832	1,591,967	-	17,707,799
Machinery, equipment and other	1,467,793	213,106	120,971	1,559,928
Vehicles	288,926	60,162	50,525	298,563
Total accumulated depreciation	20,392,875	2,051,198	171,496	22,272,577
Other capital assets, net	52,525,371	(1,494,185)	12,987	51,018,199
Capital assets, net	**$ 57,285,284**	**$ (1,347,908)**	**$ 159,264**	**$ 55,778,112**

NOTE 5 - PENSION PLANS

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

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

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publically available through the Retirement Benefits' link on PEBA's website at www.peba.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

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

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

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

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

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

NOTE 5 - PENSION PLANS, Continued

ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (9.00 percent) and a portion of the employer contribution (5.00 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (10.41 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

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

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

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

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

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

NOTE 5 - PENSION PLANS, Continued

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

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

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

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

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

SCRS	
Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation
ORP	9.00% of earnable compensation
PORS	
Employee Class II	9.75% of earnable compensation
Employee Class III	9.75% of earnable compensation

NOTE 5 - PENSION PLANS, Continued

Required **employer** contribution rates[1] for fiscal year 2019-2020 are as follows:

SCRS	
Employer Class II	15.41% of earnable compensation
Employer Class III	15.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
ORP	
Employer Contribution[2]	15.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
PORS	
Employer Class II	17.84% of earnable compensation
Employer Class III	17.84% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

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

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

Of the ORP employer contribution of 15.41% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Net Pension Liability - At June 30, 2020, the Campus reported liabilities of $23,315,871 and $1,298,284 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2019, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The Campus' proportionate shares of the net pension liabilities were based on the Campus' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the Campus' proportionate shares of the SCRS and PORS plans were 0.098127% and 0.045300%, respectively.

Pension Expense - For the year ended June 30, 2020, the Campus recognized pension expense of $2,833,323 and $235,193 for SCRS and PORS, respectively, for a total pension expense of $3,068,516.

Non-employer Contributions – Employer's proportionate shares were calculated on the basis of employer contributions remitted to the plan by employers and non-employer contributions appropriated in the State's budget. In an effort to offset a portion of the burden of the increased contribution requirement for employers, the General Assembly funded 1 percent of the SCRS and PORS contribution increases for fiscal year 2019. The State budget appropriated these funds directly to PEBA and a credit was issued for each employer to use when submitting their quarterly remittances to PEBA. For the year ended June 30, 2019 measurement period, PEBA provided non-employer contribution to the Campus in the amount of $136,450 which is shown as a reduction to net pension liability and other grant revenue in the year ended June 30, 2020.

NOTE 5 - PENSION PLANS, Continued

Deferred inflows of resources and deferred outflows of resources – At June 30, 2020, the Campus reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

South Carolina Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,377	$ 141,553
Changes of assumptions	480,086	-
Net difference between projected and actual earnings on pension plan investments	210,921	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	522,434	1,831
Campus contributions subsequent to the measurement date	1,677,983	-
Total	$ 2,907,801	$ 143,384

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,364	$ 2,486
Changes of assumptions	16,130	-
Net difference between projected and actual earnings on pension plan investments	5,157	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	21,415	377
Campus contributions subsequent to the measurement date	34,745	-
Total	$ 85,811	$ 2,863

The $1,677,983 and $34,745 reported as deferred outflows of resources related to pensions resulting from Campus contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2020 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2021.

NOTE 5 - PENSION PLANS, Continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

		SCRS
Year ended June 30:		
2021	$	968,780
2022		(22,554)
2023		55,612
2024		84,596
	$	1,086,434

		PORS
Year ended June 30:		
2021	$	28,087
2022		12,753
2023		5,681
2024		1,682
	$	48,203

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

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

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

NOTE 5 - PENSION PLANS, Continued

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

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

[1] *Includes inflation at 2.25%*

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

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

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

NOTE 5 - PENSION PLANS, Continued

Net Pension Liability - The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2019, net pension liability amounts for SCRS and PORS are as follows (amounts expressed in thousands):

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 50,073,060,256	$ 27,238,916,138	$ 22,834,144,118	54.4%
PORS	7,681,749,768	4,815,808,554	2,865,941,214	62.7%

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

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

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

NOTE 5 - PENSION PLANS, Continued

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

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

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

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

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	$28,227,541	$23,315,871	$17,548,562
PORS	1,759,483	1,298,284	920,446

NOTE 5 - PENSION PLANS, Continued

Additional Financial and Actuarial Information - Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2019 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2019.

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

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The 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 percent employer funding and 15 through 24 years of service for 50 percent 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, 6.05 percent of annual covered payroll for 2020. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately $1,016,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2020. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 for the fiscal years ended June 30, 2020. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions. The SCLTDITF is considered immaterial and is not included in the Campus' financial statements as well as the related notes and required supplementary information.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

Net OPEB Liability - At June 30, 2020, the Campus reported a liability of $26,445,708 for its proportionate share of the SCRHITF net OPEB liability. The OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Campus' proportionate share of the OPEB liability was based on the Campus' long-term share of contributions to the postemployment benefits plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the Campus' proportionate share of the SCRHITF plan was 0.174888%.

OPEB Expense – For the year ended June 30, 2020, the Campus recognized OPEB expense of $1,630,183 for SCRHITF.

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

South Carolina Retiree Health Insurance Trust Fund

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 317,842	$ 865,916
Changes of assumptions	1,786,114	1,649,642
Net difference between projected and actual earnings on OPEB plan investments	70,147	38,067
Changes in proportion and differences between Campus contributions and proportionate share of contributions	354,681	424,782
Campus contributions subsequent to the measurement date	938,915	-
Total	$ 3,467,699	$ 2,978,407

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

Year ended June 30:	SCRHITF
2021	$ (151,072)
2022	(151,072)
2023	(160,620)
2024	(175,748)
2025	86,737
Thereafter	102,152
	$ (449,623)

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

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

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

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

Long Term Expected Rate of Return

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

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

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

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

1% Decrease 2.13%	Current Single Discount Rate Assumption 3.13%	1% Increase 4.13%
$31,351,091	$26,445,708	$22,508,977

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

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

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
$21,582,542	$26,445,708	$32,779,041

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 of $578,965 for capital and $176,837 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 future minimum lease payments for noncancelable operating leases are as follows:

2021		3,840
2022		320
Total minimum lease payments	**$**	**4,160**

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in fiscal years 2021 and 2022. Total real property operating lease payments were $23,280 for fiscal year 2020. The Campus incurred expenses of $42,324 for office copier contingent rentals on a cost per copy basis for the current fiscal year.

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

	Cost	Accumulated Depreciation	Net
Equipment	$ 191,887	$ 46,821	$ 145,066

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

2021	$	47,532
2022		40,813
2023		36,471
2024		36,144
2025		12,836
Total minimum lease payments		173,796
Less amount representing interest		(23,366)
Present value of minimum lease payments by year	**$**	**150,430**

Capital lease obligations consist of:

Agreements with Presidio for copiers payable in monthly installments ranging from $13 to $247 with fixed interest rates ranging from 5.76% to 6.76%. The agreements expire March 2025.	$	150,430
Present value of minimum lease payments by lease	**$**	**150,430**

NOTE 9 – BONDS AND NOTES PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2020 Balance	Debt Retired in Fiscal Year 2020
State Institution Bonds					
Series 2011E	$ 2,675,000	4.125% to 5%	03/01/31	$ 1,745,000	$ 115,000
Total State Institution Bonds				**1,745,000**	**115,000**
Plus unamortized bond premiums				68,750	6,250
Total Bonds Payable				**$ 1,813,750**	**$ 121,250**

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2020 was $293,386 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			
2021	$ 125,000	$ 83,969	$ 208,969
2022	130,000	77,719	207,719
2023	135,000	71,219	206,219
2024	145,000	64,469	209,469
2025	150,000	57,219	207,219
2026-2030	865,000	176,238	1,041,238
2031	195,000	9,750	204,750
Total	**$ 1,745,000**	**$ 540,583**	**$ 2,285,583**

Notes Payable - Notes payable consisted of the following:

Note payable to acquire energy savings equipment, dated April 2018, payable in annual installments of $49,399 subject to amount drawn at any given time, matures February 2029, fixed interest rate of 2.00%.	$ 403,209

The scheduled maturities of the notes payable are as follows:

	Principal	Interest	Total
2021	$ 41,335	$ 8,064	$ 49,399
2022	42,162	7,237	49,399
2023	43,005	6,394	49,399
2024	43,865	5,534	49,399
2025-2029	232,842	14,155	246,997
Total	**$ 403,209**	**$ 41,384**	**$ 444,593**

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2019	Additions	Reductions	June 30, 2020	Due Within One Year	Long-Term Portion
Bonds Payable:						
State Institution Bonds	$ 1,860,000	$ -	$ 115,000	$ 1,745,000	$ 125,000	$ 1,620,000
Subtotal Bonds Payable	1,860,000	-	115,000	1,745,000	125,000	1,620,000
Unamortized Bond Premiums	75,000	-	6,250	68,750	6,250	62,500
Total Bonds Payable	1,935,000	-	121,250	1,813,750	131,250	1,682,500
Notes Payable	443,734	-	40,525	403,209	41,335	361,874
Total Bonds and Notes Payable	**$ 2,378,734**	**$ -**	**$ 161,775**	**$ 2,216,959**	**$ 172,585**	**$ 2,044,374**
Capital Lease Obligations	$ 25,671	$ 151,648	$ 26,889	$ 150,430	$ 38,077	$ 112,353
Accrued Compensated Absences	$ 739,760	$ 855,040	$ 745,191	$ 849,609	$ 764,648	$ 84,961

NOTE 11 – COMPONENT UNIT

The Beaufort-Jasper Higher Education Commission (the Commission) was created in 1994 by the General Assembly of South Carolina. The Commission's primary purpose is to provide support and encouragement for all undertakings to improve the higher education opportunities for the benefit of the citizens and residents of Beaufort and Jasper Counties. The Commission serves as the liaison between the Campus and the Beaufort and Jasper communities as well as the oversight committee for campus dormitories and the student center including the construction and management of those facilities. The Campus received $1,908,280 in gifts from the Commission and paid $4,354,738 to the Commission for housing and dining fees collected on their behalf. Complete financial statements for the Commission can be obtained at 1 University Boulevard, Bluffton, SC 29909, Attention: Earle Holley.

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 Campus mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Fiscal Accountability Authority 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 Fiscal Accountability Authority 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.

NOTE 12 - RISK MANAGEMENT, Continued

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

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

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

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campus' insurance coverage in any of the past three years.

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

The various types of insurance policies maintained by the Campus include: Building and Personal Property, Inland Marine, Ocean Marine, Data Processing Equipment, Business Interruption, Builders' Risk, Automobile, Aircraft, Directors and Officers Liability, General Tort Liability, Cyber Liability, Medical Professional Liability, Employee Crime, and Workers' Compensation.

NOTE 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	$ 8,532,216	$ 3,300,228	$ 923,839	$ -	$ 55	$ -	$ 12,756,338
Research	249,097	90,634	135,016	-	4,142	-	478,889
Public service	422,222	166,856	442,604	-	75	-	1,031,757
Academic support	2,290,958	855,002	1,249,884	-	-	-	4,395,844
Student services	2,387,423	935,414	1,113,771	-	69,927	-	4,506,535
Institutional support	1,293,164	487,457	387,824	-	5,260	-	2,173,705
Operation and plant maintenance	1,398,646	587,940	1,442,244	1,111,518	-	-	4,540,348
Auxiliary enterprises	-	-	1,915	-	-	-	1,915
Scholarships and fellowships	-	-	7,361	-	1,937,909	-	1,945,270
Depreciation	-	-	-	-	-	2,051,198	2,051,198
Pension and OPEB expense	-	2,061,227	-	-	-	-	2,061,227
Total operating expenses	**$ 16,573,726**	**$ 8,484,758**	**$ 5,704,458**	**$ 1,111,518**	**$ 2,017,368**	**$ 2,051,198**	**$ 35,943,026**

NOTE 14 – ENDOWMENTS

The Campus holds $79,000 in restricted nonexpendable true endowments. The University of South Carolina Educational Foundation and the University of South Carolina Development Foundation, component units of the University, holds and invests scholarship and general purposes endowment funds for the Campus. As of June 30, 2020 the endowment balances held by the Foundations were $8,401,889.

NOTE 15 – COVID-19 AND RELATED SUBSEQUENT EVENTS

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

In March 2020, Beaufort closed its campus including housing and dining facilities and cancelled all athletic events and competitions due to COVID-19 as the result of Governor McMaster's Executive Order. As a result of the closure, $2.0 million was refunded to students for dining and housing for the Spring semester. In addition, overall earnings on investments and endowment balances were impacted by the market conditions related to COVID-19 near fiscal year end. The Campus established a Public Health Response Team (the Team) consisting of faculty, staff, and administrators to research, discuss, and develop plans for reopening the Campus in Fall 2020. The Team was charged with examining the potential impacts of COVID-19 on the Campus and making policy recommendations concerning the safe return of students and employees to campus, mitigating any ongoing public health and safety risks, and analyzing the financial implications for Fall 2020 and beyond.

During fiscal year 2020, the Campus received notification of federal funds available for mitigation and response efforts for COVID-19 which included federal CARES Act and FEMA Disaster Relief. The Campus was certified to receive $1,037,627 in Part A funds under the federal CARES Act and expended $653,169 on student emergency grants as required under the Act. In addition, the Campus was certified to receive $1,037,627 in Part B funds under the federal CARES Act to cover institutional costs or foregone revenue related to COVID-19.

Subsequent to year end, the Campus applied for FEMA Disaster Relief funds in the amount of $30,274. In addition, the Campus received notification of additional funding available under the federal CARES Act through the State of South Carolina's accelerateSC program and submitted a reimbursement request in the amount of $1,832,152.

As of the report date, the Campus has begun the Fall 2020 semester with on-line and in-person instruction.

Because the duration and continued potential negative fiscal impacts related to COVID-19 are unknown, the Campus will continue monitoring these impacts on tuition and the corresponding bond indebtedness and debt service payments. The Campus' budget as approved on June 19, 2020 for fiscal year 2021 provides for full payment of principal and interest payments for State Institution Bonds from the revenues generated by tuition.

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

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Schedule of the Campus' Proportionate Share of the Net Pension Liability
As of June 30

South Carolina Retirement System (SCRS)

For the Year	Campus' Proportion of the Net Pension Liability	Campus' Proportionate Share of the Net Pension Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.098127%	$ 23,315,871	$ 6,455,360	361.19%	54.40%
2019	0.098510%	22,756,172	6,486,391	350.83%	54.10%
2018	0.098340%	22,947,678	6,615,447	346.88%	53.30%
2017	0.096257%	20,560,327	6,513,631	315.65%	52.91%
2016	0.097930%	18,572,899	6,289,970	295.28%	56.99%
2015	0.098130%	16,895,216	6,068,783	278.40%	59.90%
2014	0.098130%	17,600,629	6,170,081	285.26%	56.39%

Police Officers Retirement System (PORS)

For the Year	Campus' Proportion of the Net Pension Liability	Campus' Proportionate Share of the Net Pension Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.045300%	$ 1,298,284	$ 662,669	195.92%	62.70%
2019	0.044480%	1,260,261	621,594	202.75%	61.70%
2018	0.016580%	454,150	589,140	77.09%	60.90%
2017	0.041745%	1,058,854	536,667	197.30%	60.44%
2016	0.035610%	776,111	455,335	170.45%	64.57%
2015	0.035050%	670,918	422,673	158.73%	67.50%
2014	0.035050%	726,480	398,942	182.10%	62.98%

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

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Schedule of the Campus' Contributions
Related to the Pension Liability
For the Years Ended June 30

South Carolina Retirement System (SCRS)					
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Portion of Covered Payroll
2020	$ 1,677,983	$ 1,677,983	$ -	$ 6,671,421	25.15%
2019	1,482,430	1,482,430	-	6,455,360	22.96%
2018	1,231,533	1,231,533	-	6,486,391	18.99%
2017	1,146,987	1,146,987	-	6,615,447	17.34%
2016	1,054,396	1,054,396	-	6,513,631	16.19%
2015	983,314	983,314	-	6,289,970	15.63%
2014	944,325	944,325	-	6,068,783	15.56%

Police Officers Retirement System (PORS)					
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Portion of Covered Payroll
2020	$ 34,745	$ 34,745	$ -	$ 755,846	4.60%
2019	33,536	33,536	-	662,669	5.06%
2018	99,977	99,977	-	621,594	16.08%
2017	83,894	83,894	-	589,140	14.24%
2016	73,124	73,124	-	536,667	13.63%
2015	60,712	60,712	-	455,335	13.33%
2014	54,121	54,121	-	422,673	12.80%

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

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Schedule of the Campus' Proportionate Share of the Net OPEB Liability
As of June 30

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)					
For the Year	Campus' Proportion of the Net OPEB Liability	Campus' Proportionate Share of the Net OPEB Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	0.174888%	$ 26,445,708	$ 15,327,845	172.53%	8.44%
2019	0.177903%	25,209,904	15,107,340	166.87%	7.91%
2018	0.174644%	23,655,309	14,772,063	160.14%	7.60%
2017	0.174644%	25,268,669	13,272,860	190.38%	7.60%

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

UNIVERSITY OF SOUTH CAROLINA - Beaufort
Schedule of the Campus' Contributions
Related to the OPEB Liability
For the Years Ended June 30

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)					
For the Year	Contractually Required Contribution	Contributions Made to Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 938,915	$ 938,915	$ -	$ 16,263,037	5.77%
2019	924,501	924,501	-	15,327,845	6.03%
2018	825,729	825,729	-	15,107,340	5.47%
2017	787,351	787,351	-	14,772,063	5.33%

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the business-type activities and the discretely presented component unit 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, 2020, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated October 23, 2020. The financial statements of the Beaufort-Jasper Higher Education Commission (the Commission) were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Commission.

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. 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
October 23, 2020