



South Carolina's Flagship University

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Core Requirement 2.11.1

The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.

The member institution provides the following financial statements: (1) an institutional audit (or Standard Review Report issued in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA for those institutions audited as part of a systemwide or statewide audit) and written institutional management letter for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or Standard Review Report) guide; (2) a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and, (3) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board.

Audit requirements for applicant institutions may be found in the Commission policy "Accreditation Procedures for Applicant Institutions." (Financial Resources)

Judgment of Compliance: Compliant

Narrative:

The University of South Carolina maintains a sound financial base and demonstrates financial stability for the support of the mission and scope of its programs and services as evidenced by: an institutional audit and management letter by an independent certified public accounting firm; a statement of financial position of unrestricted net assets, exclusive of plant assets and plan-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and the creation of an annual budget that is preceded by sound planning, that is subject to sound fiscal procedures, and is approved by the Board of Trustees.

Annual Financial Statements

The University operates on a July 1 through June 30 fiscal year and is annually audited in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. Since the 2007 fiscal year, the annual audit has been conducted by Elliott Davis, LLC. Through a competitive solicitation process, Elliott Davis was awarded a five year contract to provide financial and compliance audit services. The University Board of Trustees appoints the external auditor ([USC Board of Trustees Bylaws, Article III Section 1, Item S](#)). The contract is [approved by the South Carolina State Auditor's Office](#).

The financial statements of the University include the Columbia campus, including the School of Medicine, and the three senior and four regional campuses. Financial Statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Colleges and Universities*. The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

Beginning in the 2009 fiscal year the external audit included additional testing of the general ledger balances for the system campuses. The individual campuses' schedules and statements were subject to certain limited procedures such as inquiries of management regarding the methods of measurement and presentation of the campus financial statement, agreeing balances per the campus financial statement to the University trial balance, and footing and referencing the individual campus financials. Following the [recommendations of SACS personnel](#), the external audit for the 2010 fiscal year will include five full separate audits of the USC system. These five audits are: the full USC System; USC Columbia along with the USC School of Medicine and the four regional campuses at USC Lancaster, USC Salkehatchie, USC Sumter and USC Union; USC Aiken; USC Beaufort; and USC Upstate.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The University's net assets are an indicator of the improvement or erosion of the University's financial health when considered with the non-financial data including enrollment levels and the condition of the University facilities. The University provides in the annual financial statement an unaudited Management Discussion and Analysis (MD&A) to address the financial health of the institution. Included in the MD&A are summary schedules with year over year comparisons of Net Assets and Revenues, Expenses and Changes in Net Assets. Narrative discussion of significant changes is detailed and explained in the context of operations and planning.

The annual audit of the financial statements includes the business-type activities and the discretely presented component units of the University. The annual audit received an unqualified opinion in [2007](#), [2008](#), and [2009](#) (2010 will be available by October 15, 2010). Elliot Davis, LLC issued a separate management letter confirming internal controls dated [November 11, 2009](#).

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust) is a blended component unit of the University. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The Trust is considered a blended component unit because the University has appointment authority of the Trust's Board of Directors. The Trust operates on a calendar year basis. Audited financial statements for calendar years 2007 and 2008 are available. (2009 will be available by October 15, 2010.)

The University of South Carolina Department of Athletics – Columbia Campus is audited separately. The audit was conducted by Rowell, Craven and Short, PA for fiscal year 2007. Beginning in fiscal year 2008 the annual audit was conducted by Elliott Davis, LLC. The Athletic Department is an auxiliary enterprise fund operation of the University and operates within the University's stated purposes and goals. The annual audit of the Athletic Department has received an unqualified opinion in 2007, 2008, and 2009.

The University has other entities that are separately audited. Each is a discretely presented component unit of the University. These units are: the University of South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the USC Upstate Foundation (formerly the Carolina Piedmont Foundation) and the Educational Foundation of the University of South Carolina – Lancaster (2007, 2008, 2009). Please refer to [Comprehensive Standard 3.10.1](#).

At the conclusion of each audit, all audited financial statements and management letters are presented to the Fiscal Policy Committee of the University's Board of Trustees. In accordance with [Proviso 89.81 of the South Carolina Appropriations Act](#), all state agencies including higher education institutions are required to submit by October 15 of each year the annual audited financial statements for inclusion in the [State's Comprehensive Annual Financial Report](#). [Archived State financial statements](#) are also available.

Unrestricted Net Assets

The University's unrestricted net assets are assets with no external restriction as to use or purpose. They can be used for any purpose designated by the Board of Trustees, as distinguished from funds restricted externally for specific purposes. Unrestricted net assets result from accumulated excesses of revenue over expenses derived from University current fund operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. The unrestricted net assets are not all in a liquid form, like cash, but also include accounts receivable, pledges receivable, inventories and prepaid items among other classifications. In the course of annual operations, a limited amount of unrestricted net assets may be accumulated as reserves so that resources are available for emergencies that may arise. The unrestricted net assets are typically not used to fund recurring operations; but, instead, are desirable to cover sudden shortfalls in revenue, unanticipated expenses, and extraordinary one-time investments. The excess of operating funds indicates the institution is meeting budgetary goals. The current surplus is the result of a conscientious effort to retain a portion of operating revenue for use in future years.

Internally prepared schedules adapted from the June 30, 2007, 2008, and 2009 audited financial statements are provided, including a [statement of revenues, expenses, and changes in unrestricted net assets](#), [SACS financial information, statement of changes in unrestricted net assets – reclassifications](#), and [SACS financial information - reclassifications](#). The statement of financial position of unrestricted net assets, exclusive of plant assets and plant related debt, represents the change in unrestricted net assets attributable to operations. Unrestricted net assets increased by approximately \$21M across the USC System from 2008 to 2009 and by approximately \$43M from 2007 to 2008. In reviewing the Columbia campus along with the four Regional Campuses and excluding the three seniors, the increase in unrestricted net assets was \$42.3M from 2007 to 2008 and \$23.7M from 2008 to 2009. Also included is a summary of net assets and liabilities for the same year end periods. A [discussion of Unrestricted Net Assets for USC Columbia](#) is provided.

Budget Development - General

The University annually prepares a balanced operating budget. The [University of South Carolina's budget development process](#) is a comprehensive planning effort representative of the vision of the University to provide research, teaching, and service for the citizens of the State of South Carolina. The process involves participation beginning at the department level and reaching out to all campuses as the budget is developed to reflect the investments identified to significantly enhance our academic reputation, benefit our students and contribute to the economic and societal health of the State of South Carolina.

Budget Development - External

The state or external budget planning process involves the South Carolina Commission on Higher Education, the Governor, and the General Assembly.

The state budget process begins with a state agency's [submission of budget requests](#) to the Governor. These requests include the "base budget," special program requests and the Agency Activity Inventory. In the case of higher education, public universities and colleges submit their requests through the Commission on Higher Education (CHE), which in turn submits a request to the Governor on behalf of all institutions. CHE does not have the authority to change the requests submitted by the institutions, but the CHE must recommend funding levels for special program requests and set priorities for capital projects before submitting them. Although accredited jointly, individual budget requests are submitted for [Columbia](#), [Lancaster](#), [Salkehatchie](#), [Sumter](#), and [Union](#).

A component of the CHE's overall funding plan is the **Mission Resource Requirements model (MRR)**, which is the estimate of the fiscal needs of an institution. This computation establishes a base funding need to which performance ratings are applied. The fiscal year budget process begins each fall with the University's submission of required data to the CHE for computation of the Mission Resource Requirements (MRR) for the state's 33 higher education institutions. Due to the severe budgetary constraints faced by South Carolina in the last decade, the **level of funding** from the General Assembly has not followed the recommendations of the MRR.

In addition to the CHE submission, all higher education institutions are required to participate in developing an **agency activity inventory database** to assist in the development of the Executive budget. This process has been in place for five full years and is coordinated by the Budget and Control Board's Office of State Budget with the Governor's Office. Agency activity inventories for **FY 2008-2009** and **FY 2009-2010** are available on the South Carolina Office of State Budget's website.

The CHE's recommendations provide input for the Governor and the General Assembly as they consider budget priorities for the upcoming year. If the House and the Senate approve differing versions of the appropriations bill, a conference committee works out the differences and presents a compromise package back to the General Assembly. Following ratification of the conference committee report, the bills then go to the Governor for signature, who may exercise line-item vetoes, which the Legislature may override by a two-thirds vote. The General Appropriations Bills for **FY 2007-2008**, **FY 2008-2009**, **FY 2009-2010**, and **FY 2010-2011** are available on the South Carolina Legislature website.

Budget Development – Internal

Although the state provides budget guidance, the state appropriation is provided as a lump sum to the University of South Carolina and the State does not specify expenditures at an operating level. Under the guidance of the Board of Trustees, the University establishes priorities, creates budgets and controls expenditures. Internally the President determines budget allocations under the advice of the Provost and Vice President for Finance and Planning (Chief Financial Officer).

The internal University budget process begins each January with a review of the tuition revenue and requests for new funding initiatives. The Provost, Vice President for Finance and Planning as well as the Associate Vice President for Finance and Planning and the Associate Vice President for Resource Planning meet regularly as the University's Budget Update Group. The Budget Update Group is charged with reviewing all budgets and assessing the impact of budget decisions. The Provost and Vice President for Finance and Planning also meet with each academic dean and staff to discuss current and future funding needs to meet strategic plans and to review tuition and fee requests and recommend budget priorities. Meetings are also held with the Deans for the Regional Campuses and Chancellors of the Senior Campuses.

The Board's budget approval authority is provided in the South Carolina Code of Laws (**S.C. Code of Laws, Title 59 Chapter 103 Section 35**). In addition to approval of the annual operating budget, one of the key actions taken by the Board of Trustees is the approval of the academic fee schedule for the fiscal year (**S.C. Code of Laws, Title 59 Chapter 112**). Additionally, the Board has authority over property and facilities (**S.C. Code of Laws, Title 59 Chapter 117 Section 60**).

Upon approval of the annual operating budget each June, the Board of Trustees delegates authority for budget execution to University administration (**USC Board of Trustees Bylaws, Article III Section 1, Item J**). The Board of Trustees recognizes that the amounts shown as revenue are estimates and are subject to changes, and that the amounts shown for expenditures are a reflection of plans and workload estimates as of the time the proposed budget was prepared. The budget is an important tool for the deans, directors, and staff in accomplishing the objectives and goals established for the academic year, as is evidenced in the budget reports for **FY 2007-2008**, **FY 2008-2009**, **FY 2009-2010**, and **FY 2010-2011**.

The University prepares **quarterly budget updates for the Board of Trustees** for the periods July through September, October through December, January through March and April through June which includes fiscal year end. The budget update includes comparison of the Board of Trustees approved budget to current budget, and comparison of budget to actual performance. Supplemental schedules of revenue and expenditures are available by budget unit and by campus.

Summary

The University of South Carolina is in compliance with this requirement. Additional information is located in Comprehensive Standards **3.10.1**, **3.10.2**, and **3.10.4**.

Supporting Documentation:

Description	Source
USC Board of Trustees Bylaws as amended April 20, 2007 Audit Responsibility Budget Responsibility	http://trustees.sc.edu/Board_ByLaws.pdf
Audit requirement correspondence	http://busfinance.admin.sc.edu/budget/sacs/2111/SACSReaffirmationofAccrediation.pdf
USC Financial Statements FY 2009-2010 FY 2008-2009 FY 2007-2008 FY 2006-2007	http://web.admin.sc.edu/fr/reports.php
External Auditor Management Letter	

FY 2008-2009	Elliot Davis USC Audit Report11-11-2009.pdf
Financial Statements USC Foundations FY 2008-2009 FY 2007-2008 FY 2006-2007	USC DF 2009.pdf USC EF 2009.pdf USC DF 2008.pdf USC EF 2008.pdf USC DF 2007.pdf USC EF 2007.pdf
Financial Statements Medical Trust FY 2008-2009 FY 2007-2008 FY 2006-2007	FY 2008-09.pdf FY 2007-08.pdf FY 2006-07.pdf
State of South Carolina Comprehensive Annual Financial Report FY 2008-2009 FY 2007-2008 FY 2006-2007	http://www.cg.sc.gov/publications/currentcafr.htm http://www.cg.sc.gov/publications/cafrarchives.htm
USC System Financial Schedules Assets & Liabilities and Statement of Revenues, Expenses and Changes in Unrestricted Net Assets	Statement of Changes in Unrestricted net Assets SACS Financial Information.pdf Statement of Changes in Unrestricted Net Assets- reclassifications SACS Financial Information-reclassifications
USC Columbia – Unrestricted Net Assets	http://busfinance.admin.sc.edu/budget/sacs/2111/UnrestrictednetassetsFY2009.pdf
USC System Budget Development Calendars and Process	http://busfinance.admin.sc.edu/budget/
Governor's Budget Development Process Budget and Control Board- Office of State Budget	http://www.budget.sc.gov/OSB-budget-planning.phtm http://www.budget.sc.gov/OSB-budget-plans.phtm
Relevant State Law	
Title 59: Education, Chapter 103: Commission on Higher Education	http://www.scstatehouse.gov/code/t59c103.htm
Title 59: Education, Chapter 112: Determination of Rates of Tuition and Fees	http://www.scstatehouse.gov/code/t59c112.htm
Title 59: Education, Chapter 117: University of South Carolina	http://www.scstatehouse.gov/code/t59c117.htm
Proviso 89.81 – Audit Requirement	http://www.scstatehouse.gov/sess118_2009-2010/appropriations2009/tap1b.htm#s89
South Carolina Commission on Higher Education Mission Resource Requirements Funding Model FY 2009-2010 FY 2008-2009 FY 2007-2008	http://busfinance.admin.sc.edu/budget/sacs/2111/MRRFY0809FY10.pdf http://www.che.sc.gov/New_Web/ForInstitutions/MRR.htm
Agency Activity Inventory	http://www.budget.sc.gov/OSB-agency-activity.phtm
Budget and Control Board- Office of State Budget	http://www.budget.sc.gov/OSB-aai-files.phtm #FY 2009 - 2010 Agency Activity Inventory http://www.budget.sc.gov/OSB-aai-files.phtm #FY 2008 - 2009 Agency Activity Inventory (Updated to reflect Targeted Reductions per House Bill 5300)
State of South Carolina Appropriations Act	
FY 2010-2011	http://www.scstatehouse.gov/sess118_2009-2010/appropriations2010/ta10ndx.htm
FY 2009-2010	http://www.scstatehouse.gov/sess118_2009-2010/appropriations2009/gab3560.htm
FY 2008-2009	http://www.scstatehouse.gov/sess117_2007-2008/appropriations2008/gab4800.htm
FY 2007-2008	http://www.scstatehouse.gov/sess117_2007-2008/appropriations2007/gab3620.htm
USC Budget Documents	
FY 2010-2011	http://busfinance.admin.sc.edu/budget/doc_11/2011BOTDocumentv3.pdf
FY 2009-2010	http://busfinance.admin.sc.edu/budget/doc_10/2009-10BOTDocument.pdf
FY 2008-2009	http://busfinance.admin.sc.edu/budget/doc_09/FY2008-09BOTDocument.pdf
FY 2007-2008	http://busfinance.admin.sc.edu/budget/doc_08/FY2007-08BOTDocument.pdf
USC Board of Trustees Budget Approval	
FY 2010-2011 Budget	http://trustees.sc.edu/minutes/062510.pdf
FY 2009-2010 Budget	http://trustees.sc.edu/minutes/062609.pdf
FY 2008-2009 Budget	http://trustees.sc.edu/minutes/062708.pdf
FY 2007-2008 Budget	http://trustees.sc.edu/minutes/062807.pdf
USC Board of Trustees Quarterly Reports FY 2009-2010 Budget FY 2008-2009 Budget FY 2007-2008 Budget	BOTQuarterly.html

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