

UNIVERSITY OF SOUTH CAROLINA - Upstate

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2017**

UNIVERSITY OF SOUTH CAROLINA - Upstate

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Upstate (the Campus), a campus of the University of South Carolina, as of and for the year ended June 30, 2017, 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 did not audit the financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation which represent 100 percent of the assets, net assets, and revenues of the Campus' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campus are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Campus as of June 30, 2017, 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, and the Schedule of the Campus' Contributions, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, 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.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 13, 2017

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina – Upstate (the Campus) is pleased to present its financial statements for the fiscal year 2017. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2017, with comparative information for the fiscal year ended June 30, 2016. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2017 and 2016 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 units, USC Upstate Foundation and USC Upstate Capital Development Foundation.

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.

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.

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

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.

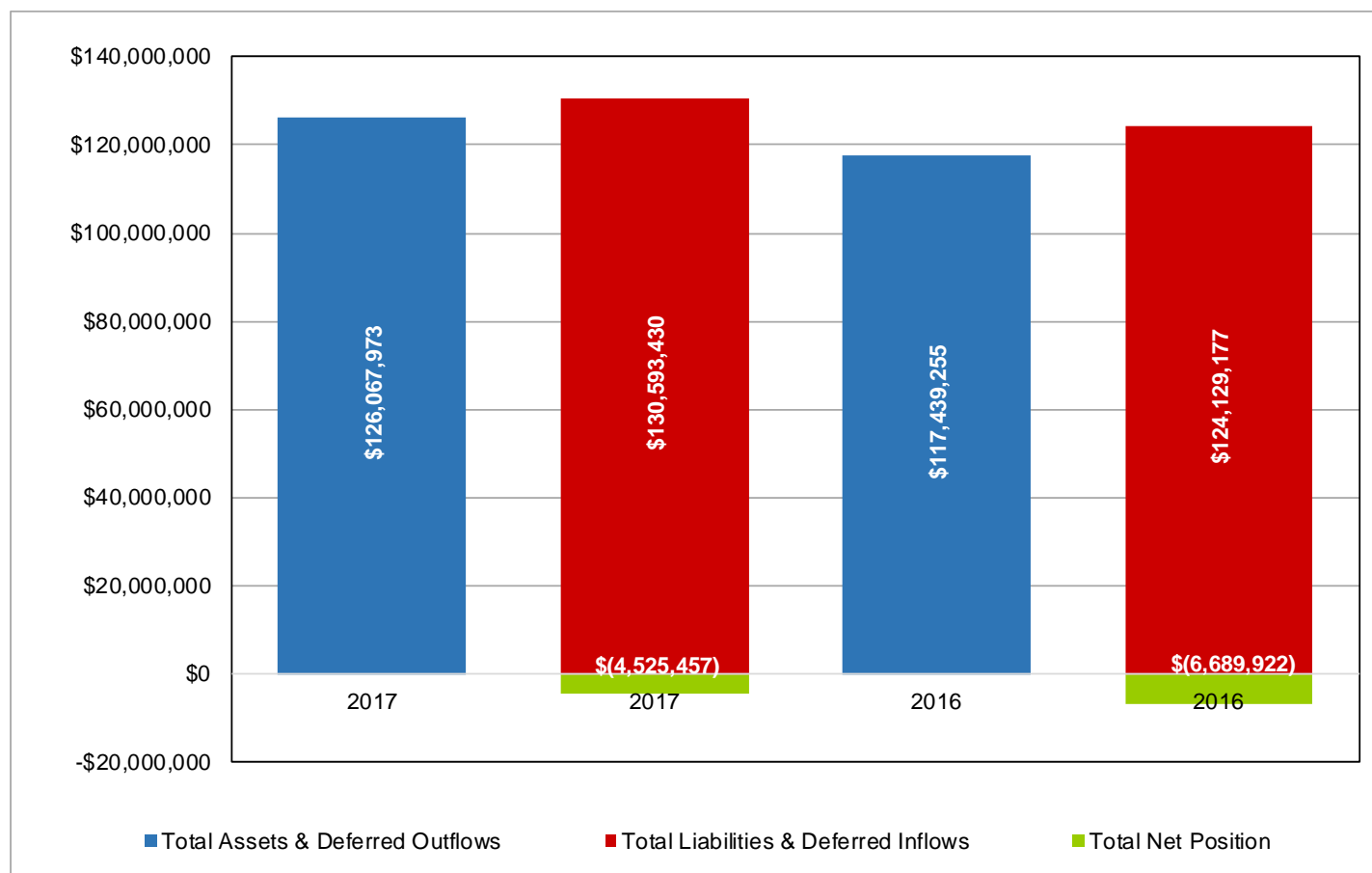
Summary of Net Position

	2017	2016	Increase/ (Decrease)	Percent Change
ASSETS				
Current assets	\$ 40,028,232	\$ 36,541,724	\$ 3,486,508	9.54%
Capital assets, net	72,307,510	74,250,144	(1,942,634)	-2.62%
Other noncurrent assets	1,083,786	1,113,318	(29,532)	-2.65%
Total assets	<u>113,419,528</u>	<u>111,905,186</u>	<u>1,514,342</u>	1.35%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	2,300,899	373,222	1,927,677	516.50%
Deferred outflows related to net pension liability	10,347,546	5,160,847	5,186,699	100.50%
Total deferred outflows of resources	<u>12,648,445</u>	<u>5,534,069</u>	<u>7,114,376</u>	128.56%
LIABILITIES				
Current liabilities	6,533,866	7,371,006	(837,140)	-11.36%
Noncurrent liabilities	123,376,263	116,193,553	7,182,710	6.18%
Total liabilities	<u>129,910,129</u>	<u>123,564,559</u>	<u>6,345,570</u>	5.14%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	<u>683,301</u>	<u>564,618</u>	<u>118,683</u>	21.02%
NET POSITION				
Net investment in capital assets	24,022,006	23,847,935	174,071	0.73%
Restricted - nonexpendable	171,451	171,451	-	0.00%
Restricted - expendable	9,144,854	7,634,722	1,510,132	19.78%
Unrestricted	<u>(37,863,768)</u>	<u>(38,344,030)</u>	<u>480,262</u>	-1.25%
TOTAL NET POSITION	<u>\$ (4,525,457)</u>	<u>\$ (6,689,922)</u>	<u>\$ 2,164,465</u>	-32.35%

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

- Current assets increased \$3.5 million primarily due to increased cash and cash equivalents as a result of increases in net tuition and fee revenue.
- Capital assets decreased \$1.9 million primarily due to annual depreciation.
- Current liabilities decreased \$837,140 due to a decrease in current bonds payable as a result of scheduled changes to bond principal payments.
- Noncurrent liabilities increased \$7.2 million due to the increase in the Campus's proportionate share of the State's net pension liability. See Note 1, *Summary of Significant Accounting Policies* and Note 5, *Pension Plans* for more information.

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



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

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the Campus. 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 Campus. 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.

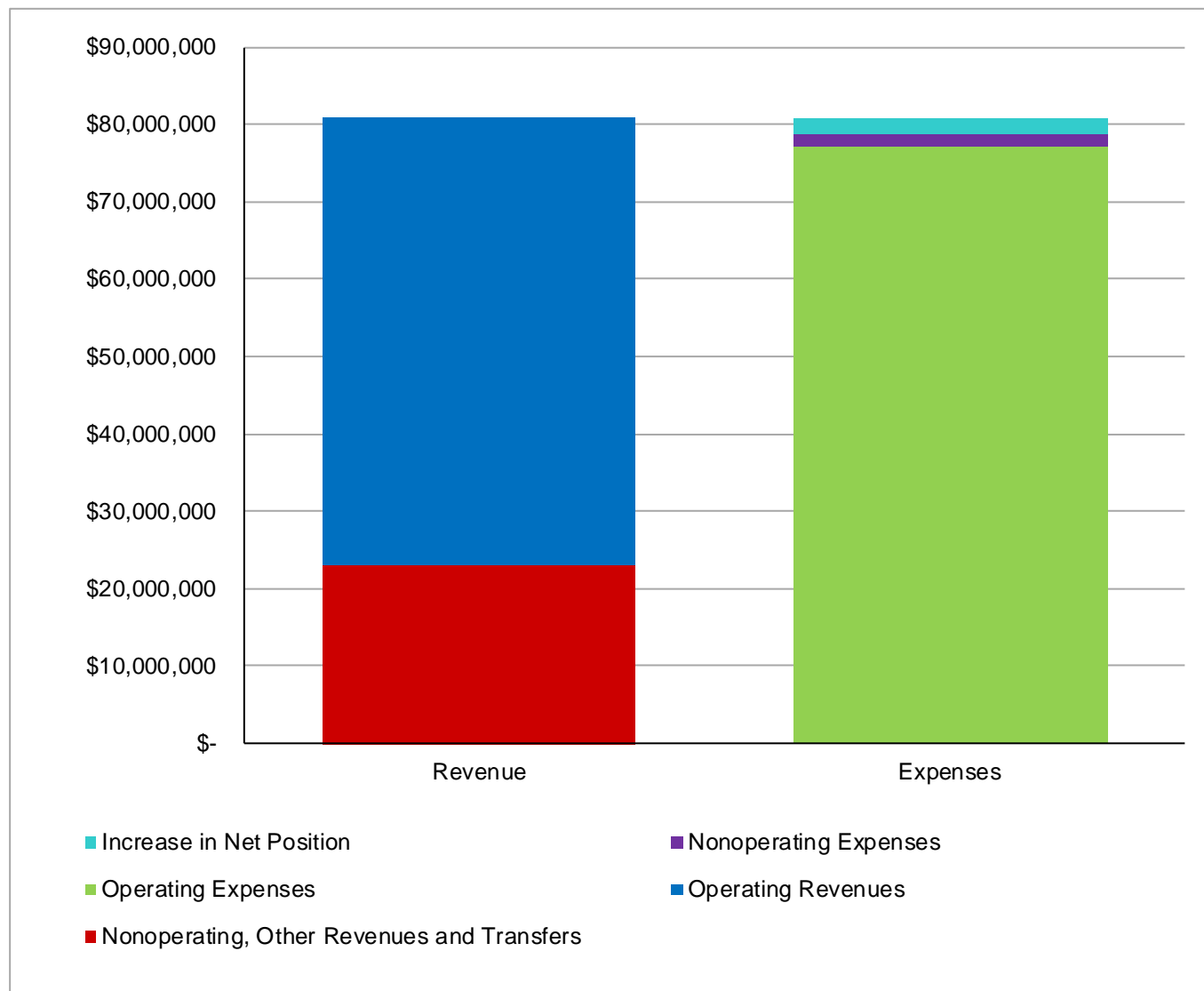
UNIVERSITY OF SOUTH CAROLINA - Upstate
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	2017	2016	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student tuition and fees	\$ 59,307,036	\$ 58,235,740	\$ 1,071,296	1.84%
Less: scholarship discounts and allowances	(25,579,651)	(25,878,023)	298,372	-1.15%
Federal grants and contracts	1,531,603	1,472,757	58,846	4.00%
State grants and contracts	11,236,709	10,709,373	527,336	4.92%
Local grants and contracts	25,986	17,676	8,310	47.01%
Nongovernmental grants and contracts	276,993	115,759	161,234	139.28%
Sales and services of educational and other activities	3,872,976	3,824,786	48,190	1.26%
Sales and services of auxiliary enterprises	7,391,943	7,495,791	(103,848)	-1.39%
Less: scholarship discounts and allowances	(441,749)	(455,547)	13,798	-3.03%
Interest collected on student loans	8,503	9,813	(1,310)	-13.35%
Other fees	300,100	300,935	(835)	-0.28%
Other operating revenues	12,336	137,954	(125,618)	-91.06%
Total operating revenues	<u>57,942,785</u>	<u>55,987,014</u>	<u>1,955,771</u>	<u>3.49%</u>
NONOPERATING REVENUES				
State appropriations	11,109,729	10,747,866	361,863	3.37%
Federal grants	11,311,917	11,685,512	(373,595)	-3.20%
Gifts	194,555	276,813	(82,258)	-29.72%
Investment income	107,373	121,698	(14,325)	-11.77%
Endowment income (loss)	(1,243)	1,293	(2,536)	-196.13%
Gain on disposal of capital assets	7,385	-	7,385	0.00%
Total nonoperating revenues	<u>22,729,716</u>	<u>22,833,182</u>	<u>(103,466)</u>	<u>-0.45%</u>
Total revenues	<u>80,672,501</u>	<u>78,820,196</u>	<u>1,852,305</u>	<u>2.35%</u>
OPERATING EXPENSES				
Salaries and wages	37,702,186	36,491,678	1,210,508	3.32%
Fringe benefits	14,801,164	13,059,721	1,741,443	13.33%
Services and supplies	18,034,105	18,162,601	(128,496)	-0.71%
Utilities	2,070,430	2,089,937	(19,507)	-0.93%
Scholarships and fellowships	1,265,531	1,274,907	(9,376)	-0.74%
Depreciation expense	3,315,551	3,234,919	80,632	2.49%
Total operating expenses	<u>77,188,967</u>	<u>74,313,763</u>	<u>2,875,204</u>	<u>3.87%</u>
NONOPERATING EXPENSES				
Loss on disposal of capital assets	-	5,661	(5,661)	-100.00%
Interest on capital asset related debt	1,601,305	2,053,674	(452,369)	-22.03%
Total nonoperating expenses	<u>1,601,305</u>	<u>2,059,335</u>	<u>(458,030)</u>	<u>-22.24%</u>
Total expenses	<u>78,790,272</u>	<u>76,373,098</u>	<u>2,417,174</u>	<u>3.16%</u>
Other revenues and transfers	<u>282,236</u>	<u>999,155</u>	<u>(716,919)</u>	<u>-71.75%</u>
Change in net position	<u>2,164,465</u>	<u>3,446,253</u>	<u>(1,281,788)</u>	<u>-37.19%</u>
Net position, beginning of year	<u>(6,689,922)</u>	<u>(10,136,175)</u>	<u>3,446,253</u>	<u>-34.00%</u>
NET POSITION, END OF YEAR	<u>\$ (4,525,457)</u>	<u>\$ (6,689,922)</u>	<u>\$ 2,164,465</u>	<u>-32.35%</u>

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

Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2017



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

- An increase of \$2.0 million in total operating revenues is due to the following:
 - An increase of \$1.4 million in student tuition and fees, net of scholarship discounts and allowances, is primarily due to a 3.25% tuition and required fees increase and a decrease in scholarship discounts and allowances due to a slight enrollment decrease.
 - The \$755,726 net increase in contracts and grants is primarily due to an increase in state scholarships due to additional lottery funding for student aid.

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

- Operating expenses increased \$2.9 million, or 3.87%, over the prior year due to a \$3.0 million increase in salaries and fringe benefits as a result of a 3.25% cost of living adjustment, as well as increases in retirement contribution and employer health insurance, and a \$2.3 million adjustment to fringe benefits due to the changes related to net pension liability.
- Other revenues and transfers decreased \$716,919 due to no additional state capital appropriations for 2017.

STATEMENT OF CASH FLOWS

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, the Administration Building repairs and renovations, a \$4.3 million project, was completed on the Campus.

The Campus indebtedness consists of bonds payable of \$50.6 million. During the current year, \$20.9 million in Higher Education Refunding bonds were issued to partially refund the Series 2009A Higher Education bonds.

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

ECONOMIC OUTLOOK

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campus' sustained strong financial performance despite significant reductions in state appropriations following the Great Recession for the period 2008 through 2012. The Campus received additional recurring state funding to begin the 2018 fiscal year to support a portion of state employee health insurance increases.

The State finished the 2017 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. The State slightly missed the total increased revenue projection and surplus allocations were reduced. These did not directly impact the Campus. The Campus did not receive any non-recurring state capital funding for projects for the 2018 fiscal year. The State of South Carolina has not advanced a capital bond bill for higher education since 1999-2000, but continues to make an effort to provide some funding for physical plant needs as dollars become available.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Net Position
As of June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 30,159,410
Restricted - cash and cash equivalents	7,603,724
Accounts receivable, net	1,057,769
Inventories	751,874
Prepaid items	68,998
Funds due from others	386,457
Total current assets	<u>40,028,232</u>

Noncurrent assets:

Restricted - cash and cash equivalents	171,039
Investments	66,451
Restricted - federal student loans receivable	846,296
Capital assets, net of accumulated depreciation	72,307,510
Total noncurrent assets	<u>73,391,296</u>
Total assets	<u>113,419,528</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	2,300,899
Deferred outflows related to net pension liability	10,347,546
Total deferred outflows of resources	<u>12,648,445</u>

LIABILITIES

Current liabilities:

Accounts payable	556,049
Retainage payable - current portion	50,954
Accrued interest payable	388,119
Accrued payroll and related liabilities	550,610
Accrued compensated absences - current portion	1,175,290
Capital lease obligations - current portion	71,737
Bonds and notes payable - current portion	1,894,268
Unearned revenues	1,264,879
Deposits	80,302
Other liabilities	2,674
Funds held for others	498,984
Total current liabilities	<u>6,533,866</u>

Noncurrent liabilities:

Accrued compensated absences	553,079
Federal loan liability	788,886
Capital lease obligations	113,278
Bonds and notes payable	48,723,418
Net pension liability	73,197,602
Total noncurrent liabilities	<u>123,376,263</u>
Total liabilities	<u>129,910,129</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net pension liability	<u>683,301</u>
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NET POSITION

Net investment in capital assets	24,022,006
Restricted for:	
Nonexpendable	171,451
Expendable	
Scholarships, research, instruction, and other	545,143
Loans	120,774
Capital projects	8,439,746
Debt service	39,191
Unrestricted	<u>(37,863,768)</u>
Total net position	<u><u>\$ (4,525,457)</u></u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2017

OPERATING REVENUES

Student tuition and fees (\$2,666,741 pledged for bonds)	\$ 59,307,036
Less: scholarship discounts and allowances	(25,579,651)
Federal grants and contracts	1,531,603
State grants and contracts	11,236,709
Local grants and contracts	25,986
Nongovernmental grants and contracts	276,993
Sales and services of educational and other activities	3,872,976
Sales and services of auxiliary enterprises (\$2,961,133 pledged for bonds)	7,391,943
Less: scholarship discounts and allowances	(441,749)
Interest collected on student loans	8,503
Other fees	300,100
Other operating revenues	12,336
	<hr/>
Total operating revenues	57,942,785

OPERATING EXPENSES

Salaries and wages	37,702,186
Fringe benefits	14,801,164
Services and supplies	18,034,105
Utilities	2,070,430
Scholarships and fellowships	1,265,531
Depreciation expense	3,315,551
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Total operating expenses	77,188,967
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Operating loss	(19,246,182)

NONOPERATING REVENUES (EXPENSES)

State appropriations	11,109,729
Federal grants	11,311,917
Gifts	194,555
Investment income	107,373
Endowment income (loss)	(1,243)
Gain on disposal of capital assets	7,385
Interest on capital asset related debt	(1,601,305)
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Net nonoperating revenues	21,128,411
	<hr/>
Income before other revenues	1,882,229
	<hr/>
Capital grants and gifts	91,173
Transfers (to)/from other campuses, net	191,063
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Change in net position	2,164,465
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NET POSITION, BEGINNING OF YEAR	(6,689,922)
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NET POSITION, END OF YEAR	\$ (4,525,457)

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Cash Flows
For the year ended June 30, 2017

OPERATING ACTIVITIES

Student tuition and fees	\$ 33,948,319
Research grants and contracts	13,410,667
Sales and services of educational and other activities	3,771,077
Sales and services of auxiliary enterprises	7,314,208
Student loans disbursed	(141,247)
Student loans collected	100,252
Interest collected on student loans	8,503
Inflows from federal direct student loans	33,732,978
Outflows from federal direct student loans	(33,016,634)
Payments to employees for services	(37,916,763)
Payments to employees for benefits	(12,571,439)
Payments to suppliers	(20,508,340)
Payments to students for scholarships and fellowships	(1,721,078)
Other receipts	312,434
Inflows from agency funds	1,069,169
Outflows from agency funds	(736,312)
Net cash used by operating activities	<u>(12,944,206)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	11,109,729
Federal grants	11,311,917
Gifts	232,754
Transfers (to)/from other campuses, net	191,063
Federal loan liability	(26,893)
Net cash provided by noncapital financing activities	<u>22,818,570</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	25,555,264
Purchase and construction of capital assets	(1,105,578)
Principal paid on capital asset related debt	(26,123,854)
Interest paid on capital asset related debt	(3,876,114)
Net cash used by capital and related financing activities	<u>(5,550,282)</u>

INVESTING ACTIVITIES

Investment income	104,278
Endowment income	(1,243)
Net cash provided by investing activities	<u>103,035</u>
Net increase (decrease) in cash and cash equivalents	<u>4,427,117</u>

Cash and cash equivalents, beginning of year

33,507,056

Cash and cash equivalents, end of year

\$ 37,934,173

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 30,159,410
Restricted - cash and cash equivalents, current	7,603,724
Restricted - cash and cash equivalents, noncurrent	171,039
	<u>\$ 37,934,173</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Cash Flows
For the year ended June 30, 2017

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

Operating loss	\$ (19,246,182)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	3,315,551
Accrued benefits related to net pension liability	2,249,337
Student loans cancelled	12,018
Change in current assets and liabilities:	
Accounts receivable, net	423,542
Student loans receivable	(40,995)
Inventories	51,675
Prepaid items	(69,000)
Accounts payable	(398,498)
Accrued payroll	4,143
Accrued benefits	(19,612)
Accrued compensated absences	(219,229)
Unearned revenues	(86,720)
Deposits	30,051
Other liabilities	509
Funds held for and due from others	1,049,204
Net cash used by operating activities	<u><u>\$ (12,944,206)</u></u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 91,173</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (1,080)</u></u>
Transfer of capital assets (to)/from other campuses, net	<u><u>\$ 8,465</u></u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Non-Governmental Discretely Presented Component Units
Statements of Financial Position
As of June 30, 2017

	USC Upstate Foundation	USC Upstate Capital Development Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 231,720	\$ 48,798	\$ 280,518
Investments	10,083,736	-	10,083,736
Assets held in trust	197,782	-	197,782
Accounts receivable, net	-	190,862	190,862
Contributions receivable, net	1,755,936	-	1,755,936
Fixed assets, net of depreciation	27,300	-	27,300
Total assets	\$ 12,296,474	\$ 239,660	\$ 12,536,134
LIABILITIES			
Accounts payable and accrued expenses	\$ 5,453	\$ -	\$ 5,453
Bonds and notes payable	1,750,000	164,757	1,914,757
Other liabilities	113,866	-	113,866
Total liabilities	1,869,319	164,757	2,034,076
NET ASSETS			
Unrestricted	916,360	74,903	991,263
Temporarily restricted	2,986,119	-	2,986,119
Permanently restricted	6,524,676	-	6,524,676
Total Foundation net assets	10,427,155	74,903	10,502,058
Total liabilities and net assets	\$ 12,296,474	\$ 239,660	\$ 12,536,134

UNIVERSITY OF SOUTH CAROLINA - Upstate
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2017

	USC Upstate Foundation	USC Upstate Capital Development Foundation	Total
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues, gains and other support			
Contributions	\$ 188,663	\$ -	\$ 188,663
Investment returns	105,144	9,382	114,526
Net realized and unrealized gains	804,319	-	804,319
Earned income	3,385	-	3,385
Other	105,227	-	105,227
Net assets released from restrictions:			
Satisfaction of program restrictions	956,478	-	956,478
Total revenues, gains and other support	2,163,216	9,382	2,172,598
Expenses			
Scholarships and student assistance	141,892	-	141,892
Program services	302,600	-	302,600
Supporting services	719,390	-	719,390
Other expenses	99,873	18,713	118,586
Total expenses	1,263,755	18,713	1,282,468
Change in unrestricted net assets	899,461	(9,331)	890,130
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	727,535	-	727,535
Investment returns	4	-	4
Other	(54,287)	-	(54,287)
Net assets released from restrictions:			
Satisfaction of program restrictions	(956,478)	-	(956,478)
Change in temporarily restricted net assets	(283,226)	-	(283,226)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	161,750	-	161,750
Change in permanently restricted net assets	161,750	-	161,750
Change in net assets	777,985	(9,331)	768,654
NET ASSETS, BEGINNING OF YEAR, AS ORIGINALLY STATED	9,731,345	84,234	9,815,579
Restatement	(82,175)	-	(82,175)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	9,649,170	84,234	9,733,404
NET ASSETS, END OF YEAR	\$ 10,427,155	\$ 74,903	\$ 10,502,058

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina – Upstate (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 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 as the primary government and other related entities as discretely presented component units. The Campus' discretely presented component units are discussed 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 non-current and depreciation expense. Actual results could differ from those estimates.

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. Capitalized interest for fiscal year 2017 was \$127,830.

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.

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

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

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

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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 and allowance.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campus had no rebatable arbitrage liability at June 30, 2017.

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, 2017, \$67,013 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented cumulative net appreciation of donor-restricted endowments.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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

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

Statement of Net Position	
Cash and cash equivalents (current)	\$ 30,159,410
Restricted cash and cash equivalents (current) for:	
Debt service	425,602
Scholarship, research, instruction, and other	575,293
Capital projects	6,602,829
	<u>7,603,724</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	105,000
Federal student loans	66,039
	<u>171,039</u>
Investments (noncurrent)	<u>66,451</u>
Total	<u>\$ 38,000,624</u>
 Notes	
Cash on hand	\$ 97,908
Deposits held by State Treasurer	37,836,045
Other deposits	220
Other investments	66,451
Total	<u>\$ 38,000,624</u>

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, 2017, \$31,341 of the \$37,836,045 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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

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 Campus' investments consist of all Level 1 assets. The investment assets held in the State's cash management pool are all Level 2 assets.

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

Other Investments - The Campus has other investments which are managed by its component unit as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

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

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

Other investments totaling \$66,451 were collateralized by securities held by the pledging bank's trust department but not in the Campus' name.

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	\$ 810,186
Auxiliary enterprises	266,797
Federal grants and contracts	312,117
State grants and contracts	79,686
Local grants and contracts	295
Non-governmental grants and contracts	30,615
Accrued interest	16,083
	<hr/> 1,515,779
Less allowance for doubtful accounts	(458,010)
	<hr/>
Accounts receivable, net	<u><u>\$ 1,057,769</u></u>

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 3 – RECEIVABLES, Continued

Student Loans Receivable and Federal Loan Liability - Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campus ceased to participate in the programs.

As the Campus determines that loans are uncollectible, the loans can be assigned to the federal agency administering the loan programs.

Capital Improvement Bonds Proceeds Receivable – This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn. There were no capital improvement bonds proceeds receivable as of June 30, 2017.

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land and improvements	\$ 270,000	\$ -	\$ -	\$ 270,000
Construction in progress	4,124,734	815,662	4,631,372	309,024
Works of art and historical treasures	-	5,000	-	5,000
Total capital assets not being depreciated	<u>4,394,734</u>	<u>820,662</u>	<u>4,631,372</u>	<u>584,024</u>
Other capital assets				
Land improvements	2,651,840	-	-	2,651,840
Buildings and improvements	104,710,009	4,631,372	-	109,341,381
Machinery, equipment and other	7,003,325	526,769	223,321	7,306,773
Vehicles	1,319,770	118,320	59,718	1,378,372
Total capital assets at historical cost	<u>115,684,944</u>	<u>5,276,461</u>	<u>283,039</u>	<u>120,678,366</u>
Less accumulated depreciation for				
Land improvements	1,241,931	84,305	-	1,326,236
Buildings and improvements	38,606,613	2,635,616	-	41,242,229
Machinery, equipment and other	4,926,953	502,293	130,488	5,298,758
Vehicles	1,054,037	93,337	59,717	1,087,657
Total accumulated depreciation	<u>45,829,534</u>	<u>3,315,551</u>	<u>190,205</u>	<u>48,954,880</u>
Other capital assets, net	<u>69,855,410</u>	<u>1,960,910</u>	<u>92,834</u>	<u>71,723,486</u>
Capital assets, net	<u>\$ 74,250,144</u>	<u>\$ 2,781,572</u>	<u>\$ 4,724,206</u>	<u>\$ 72,307,510</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS

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

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

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

Plan Description

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

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8.66 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 (6.41 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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Required **employee** contribution rates for fiscal year 2016-2017 are as follows:

<u>SCRS</u>	
Employee Class II	8.66% of earnable compensation
Employee Class III	8.66% of earnable compensation
<u>ORP</u>	
	8.66% of earnable compensation
<u>PORS</u>	
Employee Class II	9.24% of earnable compensation
Employee Class III	9.24% of earnable compensation

Required **employer** contribution rates¹ for fiscal year 2016-2017 are as follows:

<u>SCRS</u>	
Employer Class II	11.41% of earnable compensation
Employer Class III	11.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>ORP</u>	
Employer Contribution ²	11.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
<u>PORS</u>	
Employer Class II	13.84% of earnable compensation
Employer Class III	13.84% 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 11.41% 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.

SCRS - The Campus' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2017, 2016, and 2015 were:

Fiscal Year	Retirement		Incidental Death	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2017	11.410%	\$31,955,000	0.150%	\$420,000
2016	10.910%	\$29,302,000	0.150%	\$403,000
2015	10.750%	\$28,671,000	0.150%	\$400,000

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

PORS - The Campus' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2017, 2016, and 2015 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2017	13.840%	\$110,800	0.200%	\$1,600	0.200%	\$1,600
2016	13.340%	\$94,000	0.200%	\$1,400	0.200%	\$1,400
2015	13.010%	\$89,000	0.200%	\$1,400	0.200%	\$1,400

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

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

Net Pension Liability - At June 30, 2017, the Campus reported liabilities of \$71,798,931 and \$1,398,671 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2016, 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, 2016, the Campus' proportionate shares of the SCRS and PORS plans were 0.331640% and 0.055142%.

Pension Expense - For the year ended June 30, 2017, the Campus recognized pension expense of \$5,921,201 and \$120,308 for SCRS and PORS, respectively.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Deferred inflows of resources and deferred outflows of resources – At June 30, 2017, 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	\$ 700,877	\$ 136,677
Net difference between projected and actual earnings on pension plan investments	5,666,326	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	-	523,698
Campus contributions subsequent to the measurement date	3,738,993	-
Total	<u>\$ 10,106,196</u>	<u>\$ 660,375</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,108	\$ -
Net difference between projected and actual earnings on pension plan investments	115,457	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	-	22,926
Campus contributions subsequent to the measurement date	110,785	-
Total	<u>\$ 241,350</u>	<u>\$ 22,926</u>

The \$3,738,993 and \$110,785 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, 2017 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2018.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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:	
2018	\$ 1,384,705
2019	1,038,418
2020	2,078,491
2021	1,205,213
	<u>\$ 5,706,828</u>

	PORS
Year ended June 30:	
2018	\$ 23,378
2019	22,681
2020	38,940
2021	22,640
	<u>\$ 107,639</u>

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

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016, actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017, measurement date.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

The June 30, 2016, total pension liability, net pension liability, and sensitivity information were determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2015, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.5%	7.5%
Projected salary increases	3.5% to 12.5% (varies by service) ¹	4.0% to 10.0% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

¹ Includes inflation at 2.75%

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015 valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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, 2016, 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
SCRS	\$45,356,214,752	\$23,996,362,354	\$21,359,852,398	52.9%
PORS	6,412,510,458	3,876,035,732	2,536,474,726	60.4%

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

Long Term Expected Rate of Return - The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all 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 total pension liability.

Sensitivity Analysis - The following table presents the collective net pension liability of the Campus calculated using the discount rate of 7.50 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 (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.5%)	Current Discount Rate (7.5%)	1.00% Increase (8.5%)
SCRS	\$89,567,442	\$71,798,931	\$57,007,671
PORS	1,833,078	1,398,671	1,008,275

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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, 2016 (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, 2016.

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 BENEFIT

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

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.33% of annual covered payroll for 2017 and 5.33% of annual covered payroll for 2016. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$1,869,000 and \$1,795,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2017 and 2016, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2017 and 2016. The Campus recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$17,400 and \$17,000 for the years ended June 30, 2017 and 2016, respectively.

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFIT, Continued

In June 2015, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of other postemployment benefits (OPEB) by state and local governments. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* applies to benefit plans, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* applies to employers that provide those benefits to their employees. Statement No. 75 is effective for employers beginning fiscal year 2018. Employers covered through the state's OPEB will recognize a proportionate share of the state's unfunded liability. OPEB accounting requirements will parallel the new pension requirements that employers implemented in fiscal year 2015.

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

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

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

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

The Campus had outstanding commitments under construction contracts of \$312,188 for capital and \$294,039 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:

Real Property Operating Leases

2018	\$	1,002,696
2019		939,461
2020		911,898
2021		911,898
2022		843,500
2023-2027		4,217,500
2028-2032		1,617,500
2033-2036		677,250
		<hr/>
Total minimum lease payments	\$	<u>11,121,703</u>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2018-2036. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$996,528 for fiscal year 2017.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 8 - LEASE OBLIGATIONS, Continued

Capital Leases - Buildings and land held by the Campus as of June 30, 2017:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$ 393,703	\$ 300,282	\$ 93,421
Land	245,000	-	245,000

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

2018	\$ 78,000
2019	78,000
2020	<u>39,000</u>
Total minimum lease payments	195,000
Less amount representing interest	<u>(9,985)</u>
Present value of minimum lease payments by year	<u>\$ 185,015</u>

Capital lease obligations consist of:

Agreement with USC Upstate Foundation for land and building, dated February 2010, payable in monthly principal payments of \$6,500, with a fixed interest rate of 4.11%. This agreement expires in December 2019.

	\$ 185,015
Present value of minimum lease payments by lease	<u>\$ 185,015</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 9 – BONDS PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2017 Balance	Debt Retired in Fiscal Year 2017
State Institution Bonds					
Series 2009B	\$ 6,035,000	3% to 5%	04/01/29	\$ 4,035,000	\$ 265,000
Series 2011A Refunding	885,000	3.5% to 5%	03/01/22	440,000	80,000
Series 2014A	3,450,000	3% to 5%	04/01/34	3,090,000	115,000
Series 2015B Refunding	5,735,000	4% to 5%	04/01/26	5,265,000	470,000
Total State Institution Bonds				12,830,000	930,000
Revenue Bonds					
Series 2009A	28,920,000	3.5%	06/01/39	675,000	24,165,000
Series 2013	10,890,000	3% to 5%	05/01/33	9,435,000	390,000
Series 2015	570,000		05/01/17	-	570,000
Series 2016 Refunding	20,910,000	4% to 5%	06/01/39	20,910,000	-
Total Revenue Bonds				31,020,000	25,125,000
Subtotal bonds payable				43,850,000	26,055,000
Plus unamortized bond premiums				7,116,276	294,300
Less unamortized bond discounts				(348,590)	(15,845)
Total Bonds Payable				\$ 50,617,686	\$ 26,333,455

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2017 was \$2,666,741 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the Campus from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campus which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2017 were \$2,961,133 from sales and services of auxiliary enterprises.

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

On July 1, 2016 the Campus issued \$20,910,000 in Higher Education Revenue Refunding bonds to partially refund Series 2009A Revenue bonds with a final maturity of June 1, 2039 callable on May 1, 2026. The refunding transaction resulted in a deferred loss on refunding of \$1,966,121, an aggregate debt payment reduction of \$5,162,817 over the next 23 years and an economic gain of \$4,280,757.

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

	Principal	Interest	Total
State Institution Bonds			
2018	\$ 960,000	\$ 569,444	\$ 1,529,444
2019	995,000	532,494	1,527,494
2020	1,035,000	486,944	1,521,944
2021	1,075,000	439,444	1,514,444
2022	1,120,000	388,694	1,508,694
2023-2027	5,295,000	1,136,969	6,431,969
2028-2032	1,875,000	244,925	2,119,925
2033-2034	475,000	25,025	500,025
Total	\$ 12,830,000	\$ 3,823,939	\$ 16,653,939
	Principal	Interest	Total
Revenue Bonds			
2018	\$ 1,080,000	\$ 1,453,638	\$ 2,533,638
2019	1,035,000	1,413,813	2,448,813
2020	1,095,000	1,362,063	2,457,063
2021	1,160,000	1,307,313	2,467,313
2022	1,225,000	1,249,313	2,474,313
2023-2027	7,060,000	5,274,913	12,334,913
2028-2032	8,900,000	3,422,213	12,322,213
2033-2037	7,625,000	1,377,913	9,002,913
2038-2039	1,840,000	85,800	1,925,800
Total	\$ 31,020,000	\$ 16,946,979	\$ 47,966,979

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 13,760,000	\$ -	\$ 930,000	\$ 12,830,000	\$ 960,000	\$ 11,870,000
Revenue Bonds	35,235,000	20,910,000	25,125,000	31,020,000	1,080,000	29,940,000
Subtotal Bonds Payable	48,995,000	20,910,000	26,055,000	43,850,000	2,040,000	41,810,000
Unamortized Bond Premiums	2,765,312	4,645,264	294,300	7,116,276	202,858	6,913,418
Unamortized Bond Discounts	(364,435)	-	(15,845)	(348,590)	(348,590)	-
Total Bonds Payable	\$ 51,395,877	\$ 25,555,264	\$ 26,333,455	\$ 50,617,686	\$ 1,894,268	\$ 48,723,418
Capital Lease Obligations	\$ 253,869	\$ -	\$ 68,854	\$ 185,015	\$ 71,737	\$ 113,278
Accrued Compensated Absences	\$ 1,947,598	\$ 1,466,597	\$ 1,685,826	\$ 1,728,369	\$ 1,175,290	\$ 553,079

Additional information regarding bonds payable is included in Note 9.

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the Campus exist primarily to provide financial assistance and other support to the Campus and its educational programs. They include the USC Upstate Foundation and the USC Upstate Capital Development Foundation which are considered non-governmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the Campus, they are considered component units of the Campus and are discretely presented in the Campus' financial statements accordingly as non-governmental reporting entities.

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 11 - COMPONENT UNITS, Continued

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

Funds Received from Component Units

USC Upstate Foundation	\$ 205,499
USC Upstate Capital Foundation	-
Total	\$ 205,499

Funds Paid to Component Units

USC Upstate Foundation	\$ 1,050
USC Upstate Capital Foundation	78,000
Total	\$ 79,050

NOTE 12 – RELATED PARTY

The Spartanburg County Commission for Higher Education (the Commission) is a separately chartered legal entity which does not meet the criteria established by GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, to be treated as a component unit of the Campus. While it is not financially accountable to the Campus, the Commission exists primarily to provide financial assistance and other support to the Campus and the educational programs. The activities of the Commission are not included in the Campus' financial statements.

The Commission was created under Act 36 of the 1967 Session of the General Assembly of South Carolina. The Commission is composed of seventeen members who are appointed by the Governor on the recommendation of a majority of the Spartanburg County Legislative Delegation. The Commission is responsible for the encouragement of higher education in Spartanburg County and adjacent areas and, more specifically, the establishment in Spartanburg County of facilities necessary to provide for an institution of higher education. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Spartanburg County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation of \$1,000 from Spartanburg County. During the year ended June 30, 2017, the Commission made grants to the Campus totaling \$14,000. The Commission paid expenditures on behalf of the Campus of \$11,005 for the fiscal year ended June 30, 2017. The Commission controls land owned by the County and provides the land to the Campus at no cost. The Campus provides accounting and record maintenance services to the Commission at no charge. The Commission owns six duplexes (one has a mortgage) adjacent to campus and will purchase a sixth in the next fiscal year. These properties are managed by a rental company and are not considered student housing. The proceeds from these rentals are added to the \$331,600 endowment or the operating funds of the Commission. At June 30, 2017, the Commission had a net position of \$991,000.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 13 – 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 Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

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

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

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

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

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

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

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

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

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

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

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

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have 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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 13 – RISK MANAGEMENT, Continued

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

NOTE 14 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 21,071,689	\$ 8,023,493	\$ 1,817,206	\$ -	\$ 302	\$ -	\$ 30,912,690
Research	85,004	18,243	87,970	-	-	-	191,217
Public service	761,422	260,761	611,112	-	2,904	-	1,636,199
Academic support	2,955,553	1,163,940	1,733,592	79	495	-	5,853,659
Student services	4,695,233	1,830,156	2,865,320	-	1,819	-	9,392,528
Institutional support	4,328,427	1,754,356	2,642,369	-	62	-	8,725,214
Operation & plant maintenance	3,057,817	1,364,460	5,949,271	1,576,833	-	-	11,948,381
Auxiliary enterprises	747,041	222,800	2,313,579	493,518	-	-	3,776,938
Scholarships and fellowships	-	162,955	13,686	-	1,259,949	-	1,436,590
Depreciation	-	-	-	-	-	3,315,551	3,315,551
Total operating expenses	\$ 37,702,186	\$ 14,801,164	\$ 18,034,105	\$ 2,070,430	\$ 1,265,531	\$ 3,315,551	\$ 77,188,967

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

	SCRS			
	2017	2016	2015	2014
Campus' proportion of the net pension liability	0.331640%	0.340992%	0.343940%	0.343940%
Campus' proportionate share of the net pension liability	<u>\$ 71,798,931</u>	<u>\$ 64,670,755</u>	<u>\$ 59,217,099</u>	<u>\$ 61,690,365</u>
Campus' covered-employee payroll during the measurement period	<u>\$ 21,173,900</u>	<u>\$ 21,450,964</u>	<u>\$ 21,271,140</u>	<u>\$ 20,651,807</u>
Campus' proportionate share of the net pension liability as a percentage of its covered-employee payroll	339.09%	301.48%	278.39%	298.72%
Plan fiduciary net position as a percentage of the total pension liability	52.91%	56.99%	59.90%	56.39%

	PORS			
	2017	2016	2015	2014
Campus' proportion of the net pension liability	0.055142%	0.055494%	0.055920%	0.055920%
Campus' proportionate share of the net pension liability	<u>\$ 1,398,671</u>	<u>\$ 1,209,494</u>	<u>\$ 1,070,541</u>	<u>\$ 1,159,199</u>
Campus' covered-employee payroll during the measurement period	<u>\$ 708,899</u>	<u>\$ 686,692</u>	<u>\$ 674,433</u>	<u>\$ 680,580</u>
Campus' proportionate share of the net pension liability as a percentage of its covered-employee payroll	197.30%	176.13%	158.73%	170.33%
Plan fiduciary net position as a percentage of the total pension liability	60.44%	64.57%	67.50%	62.98%

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Schedule of the Campus' Contributions
For the Years Ended June 30

	SCRS			
	2017	2016	2015	2014
Contractually required contribution	\$ 3,738,993	\$ 3,427,532	\$ 3,353,440	\$ 3,309,868
Contributions made to pension plan	3,738,993	3,427,532	3,353,440	3,309,868
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Campus' covered employee payroll	\$ 21,565,300	\$ 21,173,900	\$ 21,450,964	\$ 21,271,140
Contributions as a portion of covered employee payroll	17.34%	16.19%	15.63%	15.56%

	PORS			
	2017	2016	2015	2014
Contractually required contribution	\$ 110,785	\$ 96,591	\$ 91,561	\$ 86,358
Contributions made to pension plan	110,785	96,591	91,561	86,358
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Campus' covered employee payroll	\$ 777,986	\$ 708,899	\$ 686,692	\$ 674,433
Contributions as a portion of covered employee payroll	14.24%	13.63%	13.33%	12.80%

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Upstate (the Campus), a campus of the University of South Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated October 13, 2017. Our report includes a reference to other auditors who audited the financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation, as described in our report on the Campus' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 13, 2017