

UNIVERSITY OF SOUTH CAROLINA - Upstate

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

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, 2018, 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.

Opinion

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement for Implementation of New Accounting Standard

As discussed in Note 6 to the financial statements, the Campus adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal year ending June 30, 2018. Our audit opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the 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.



Columbia, South Carolina
November 16, 2018

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 2018. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2018, with comparative information for the fiscal year ended June 30, 2017. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2018 and 2017 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. 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.

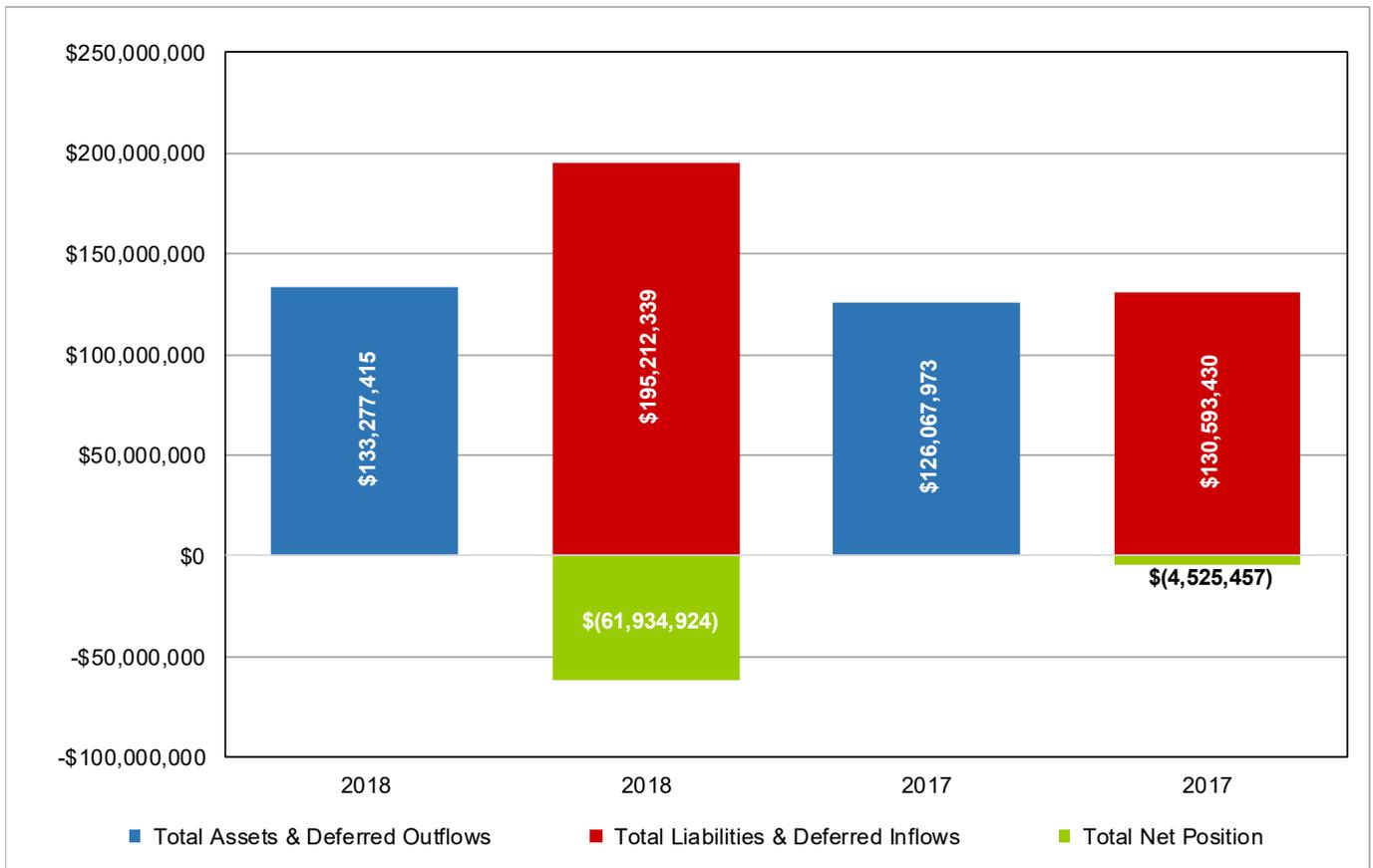
Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 45,463,261	\$ 40,028,232	\$ 5,435,029	13.58%
Capital assets, net	69,960,785	72,307,510	(2,346,725)	-3.25%
Other noncurrent assets	1,084,138	1,083,786	352	0.03%
Total assets	<u>116,508,184</u>	<u>113,419,528</u>	<u>3,088,656</u>	2.72%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	2,262,457	2,300,899	(38,442)	-1.67%
Deferred outflows related to net OPEB liability	2,045,114	-	2,045,114	0.00%
Deferred outflows related to net pension liability	12,461,660	10,347,546	2,114,114	20.43%
Total deferred outflows of resources	<u>16,769,231</u>	<u>12,648,445</u>	<u>4,120,786</u>	32.58%
LIABILITIES				
Current liabilities	7,216,155	6,533,866	682,289	10.44%
Noncurrent liabilities	182,158,842	123,376,263	58,782,579	47.64%
Total liabilities	<u>189,374,997</u>	<u>129,910,129</u>	<u>59,464,868</u>	45.77%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net OPEB liability	5,289,425	-	5,289,425	0.00%
Deferred inflows related to net pension liability	547,917	683,301	(135,384)	-19.81%
Total deferred outflows of resources	<u>5,837,342</u>	<u>683,301</u>	<u>5,154,041</u>	754.29%
NET POSITION				
Net investment in capital assets	23,532,301	24,022,006	(489,705)	-2.04%
Restricted - nonexpendable	171,451	171,451	-	0.00%
Restricted - expendable	10,212,972	9,144,854	1,068,118	11.68%
Unrestricted	(95,851,648)	(37,863,768)	(57,987,880)	153.15%
TOTAL NET POSITION	<u>\$ (61,934,924)</u>	<u>\$ (4,525,457)</u>	<u>\$ (57,409,467)</u>	1268.59%

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

- Current assets increased \$5.4 million primarily due to increased cash and cash equivalents as a result of increases in net tuition and fee revenue, state grant revenue, and federal grant revenue.
- Capital assets decreased \$2.3 million primarily due to annual depreciation.
- Current liabilities increased \$682,289 due to an increase in current bonds payable as a result of scheduled changes to bond principal payments.
- Noncurrent liabilities increased \$58.8 million due to the implementation of GASB 75 and an increase in the Campus' proportionate share of the State's net pension liability. See Note 1, *Summary of Significant Accounting Policies*, Note 5, *Pension Plans* and Note 6, *Postemployment and Other Employee Benefits* 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.

Restatement of Net Position

During the fiscal year, the Campus had a restatement of beginning net position of \$59.8 million due to the implementation of GASB 75. See Note 6 for further information.

- Considering the Campus' financial position excluding the pension and OPEB liabilities, the unrestricted net position increased by \$4.5 million, a 17.5% increase over 2017. When the required liabilities are eliminated, the campus shows growth in operations due to 3.67% increase in enrollment. Expenditure growth was a modest 2.71% to support enrollment growth while structuring operating budgets to support future strategic plans.

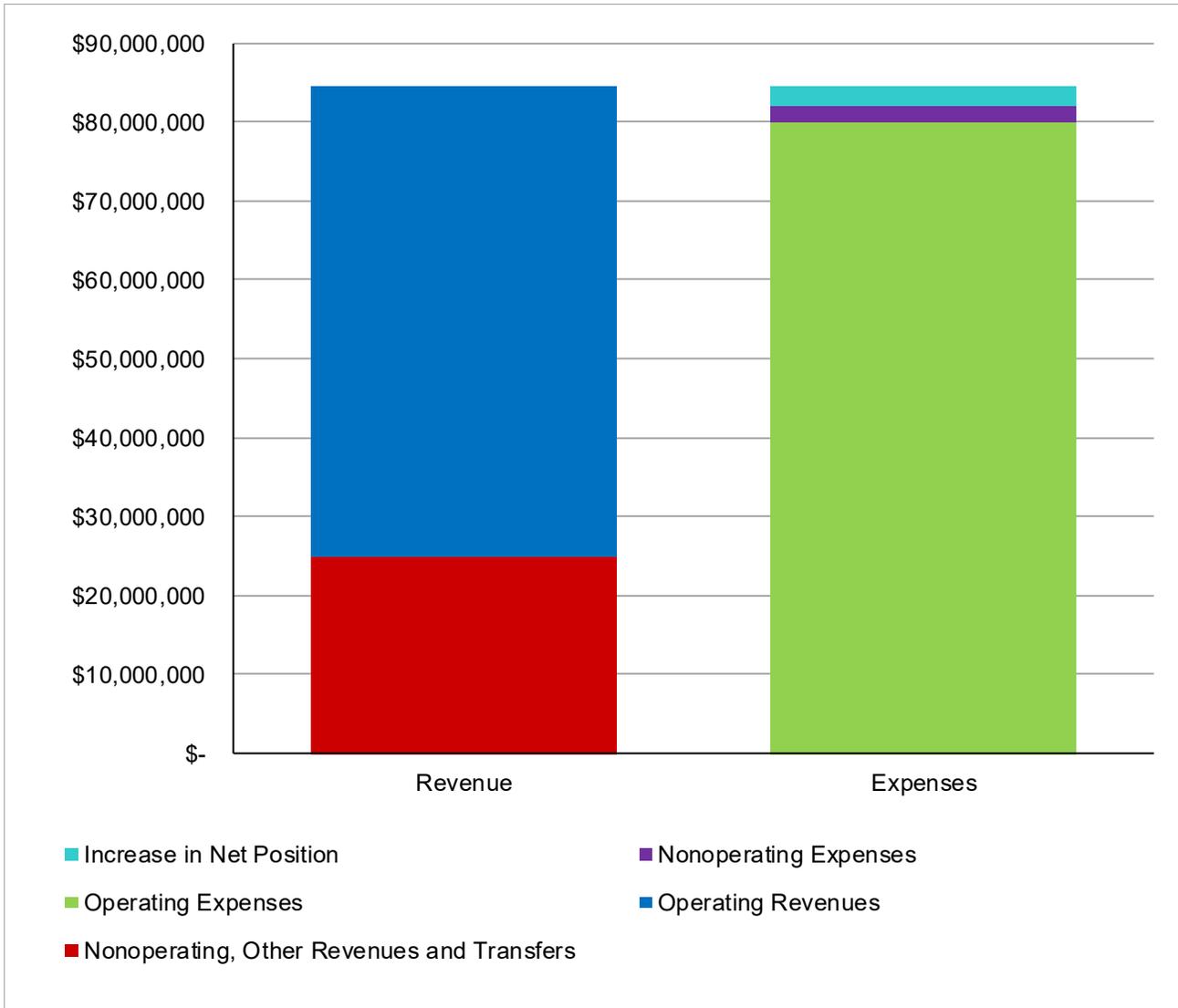
UNIVERSITY OF SOUTH CAROLINA - Upstate
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Student tuition and fees	\$ 62,278,335	\$ 59,307,036	\$ 2,971,299	5.01%
Less: scholarship allowance	(27,798,980)	(25,579,651)	(2,219,329)	8.68%
Federal grants and contracts	1,980,557	1,531,603	448,954	29.31%
State grants and contracts	12,002,213	11,236,709	765,504	6.81%
Local grants and contracts	23,623	25,986	(2,363)	-9.09%
Nongovernmental grants and contracts	155,353	276,993	(121,640)	-43.91%
Sales and services of educational and other activities	3,171,807	3,872,976	(701,169)	-18.10%
Sales and services of auxiliary enterprises	7,663,289	7,391,943	271,346	3.67%
Less: scholarship allowance	(365,512)	(441,749)	76,237	-17.26%
Interest collected on student loans	11,974	8,503	3,471	40.82%
Other fees	337,180	300,100	37,080	12.36%
Other operating revenues	57,941	12,336	45,605	369.69%
Total operating revenues	<u>59,517,780</u>	<u>57,942,785</u>	<u>1,574,995</u>	<u>2.72%</u>
NONOPERATING REVENUES				
State appropriations	11,432,697	11,109,729	322,968	2.91%
Federal grants	12,936,435	11,311,917	1,624,518	14.36%
Gifts	173,770	194,555	(20,785)	-10.68%
Investment income	119,105	107,373	11,732	10.93%
Endowment income	3,665	(1,243)	4,908	-394.85%
Gain on disposal of capital assets	736	7,385	(6,649)	-90.03%
Total nonoperating revenues	<u>24,666,408</u>	<u>22,729,716</u>	<u>1,936,692</u>	<u>8.52%</u>
Total revenues	<u>84,184,188</u>	<u>80,672,501</u>	<u>3,511,687</u>	<u>4.35%</u>
OPERATING EXPENSES				
Salaries and wages	38,054,903	37,702,186	352,717	0.94%
Fringe benefits	16,421,917	14,801,164	1,620,753	10.95%
Services and supplies	18,875,055	18,034,105	840,950	4.66%
Utilities	2,118,208	2,070,430	47,778	2.31%
Scholarships and fellowships	1,303,533	1,265,531	38,002	3.00%
Depreciation expense	3,263,735	3,315,551	(51,816)	-1.56%
Total operating expenses	<u>80,037,351</u>	<u>77,188,967</u>	<u>2,848,384</u>	<u>3.69%</u>
NONOPERATING EXPENSES				
Interest on capital asset related debt	2,074,368	1,601,305	473,063	29.54%
Total nonoperating expenses	<u>2,074,368</u>	<u>1,601,305</u>	<u>473,063</u>	<u>29.54%</u>
Total expenses	<u>82,111,719</u>	<u>78,790,272</u>	<u>3,321,447</u>	<u>4.22%</u>
Other revenues and transfers	274,832	282,236	(7,404)	-2.62%
Change in net position	2,347,301	2,164,465	182,836	8.45%
Net position, beginning of year, as originally stated	(4,525,457)	(6,689,922)	2,164,465	-32.35%
Restatement	(59,756,768)	-	(59,756,768)	0.00%
Net position, beginning of year, as restated	<u>(64,282,225)</u>	<u>-</u>	<u>(64,282,225)</u>	<u>0.00%</u>
NET POSITION, END OF YEAR	<u>\$ (61,934,924)</u>	<u>\$ (4,525,457)</u>	<u>\$ (57,409,467)</u>	<u>1268.59%</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, 2018



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

- An increase of \$1.6 million in total operating revenues is due to the following:
 - An increase of \$751,970 in student tuition and fees, net of scholarship discounts and allowances, is primarily due to a 3.05% tuition and required fees increase along with a 3.67% increase in enrollment.
 - The \$1.1 million net increase in contracts and grants is primarily due to increases in state scholarships due to additional lottery funding for student aid and additional federal grant revenue.

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

- An increase of \$2.8 million (3.69%) in operating expenses is due to the following:
 - Salaries and fringe benefits increased \$1.9 million due primarily to the employer fringe rate increase and a \$815,747 increase in the fringe benefits adjustment for the changes in net pension and OPEB liabilities over last fiscal year.
 - Services and supplies expense increased \$840,950 primarily due to a one-time payment of \$725,000 related to the change from Atlantic Sun Conference to the Big South Conference for athletics.

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

The Campus indebtedness consists of bonds payable of \$48.7 million. During the current year, the remaining balance of the Series 2009A Higher Education Revenue bonds was paid off. For more detailed information on capital asset and debt activity please refer to Note 4 – Capital Assets and Note 9 – Bonds 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 2019 fiscal year to support a portion of state employee health insurance increases.

The State finished the 2018 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. For the 2019 fiscal year now underway, additional Education and General funding was provided to all University system campuses to support academic initiatives that promote access and affordability for residents of South Carolina. Total new operating funding is approximately \$8 million and fringe benefit funding of \$3 million is provided to support a portion of state employee retirement contributions and health insurance increases. For the USC Upstate campus, the new allocation totals approximately \$1,113,019. While state institutions have not benefited from a capital bond bill for higher education since 1999-2000, critical capital project funding of \$21 million is allocated to the USC System for 2019. USC Upstate's share of this funding totals \$3.5 million.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Net Position
As of June 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$ 34,320,259
Restricted - cash and cash equivalents	8,490,419
Accounts receivable, net	1,396,091
Inventories	716,653
Funds due from others	<u>539,839</u>
Total current assets	<u>45,463,261</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	239,758
Investments	66,451
Restricted - federal student loans receivable	777,929
Capital assets, net of accumulated depreciation	<u>69,960,785</u>
Total noncurrent assets	<u>71,044,923</u>
Total assets	<u>116,508,184</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	2,262,457
Deferred outflows related to net OPEB liability	2,045,114
Deferred outflows related to net pension liability	<u>12,461,660</u>
Total deferred outflows of resources	<u>16,769,231</u>

LIABILITIES

Current liabilities:	
Accounts payable	309,387
Retainage payable - current portion	29,337
Accrued interest payable	370,146
Accrued payroll and related liabilities	599,400
Accrued compensated absences - current portion	1,227,235
Capital lease obligations - current portion	74,742
Bonds payable - current portion	2,454,061
Unearned revenues	1,073,917
Deposits	100,582
Other liabilities	2,675
Funds held for others	<u>974,673</u>
Total current liabilities	<u>7,216,155</u>
Noncurrent liabilities:	
Accrued compensated absences	366,577
Federal loan liability	788,663
Capital lease obligations	38,537
Bonds payable	46,269,356
Net OPEB liability	55,945,486
Net pension liability	<u>78,750,223</u>
Total noncurrent liabilities	<u>182,158,842</u>
Total liabilities	<u>189,374,997</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net OPEB liability	5,289,425
Deferred inflows related to net pension liability	<u>547,917</u>
Total deferred inflows of resources	<u>5,837,342</u>

NET POSITION

Net investment in capital assets	23,532,301
Restricted for:	
Nonexpendable	171,451
Expendable	
Scholarships, research, instruction, and other	527,224
Loans	121,350
Capital projects	9,516,744
Debt service	47,654
Unrestricted	<u>(95,851,648)</u>
Total net position	<u>\$ (61,934,924)</u>

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

OPERATING REVENUES

Student tuition and fees (\$2,702,031 pledged for bonds)	\$	62,278,335
Less: scholarship allowance		(27,798,980)
Federal grants and contracts		1,980,557
State grants and contracts		12,002,213
Local grants and contracts		23,623
Nongovernmental grants and contracts		155,353
Sales and services of educational and other activities		3,171,807
Sales and services of auxiliary enterprises (\$2,533,638 pledged for bonds)		7,663,289
Less: scholarship allowance		(365,512)
Interest collected on student loans		11,974
Other fees		337,180
Other operating revenues		57,941
		59,517,780
Total operating revenues		59,517,780

OPERATING EXPENSES

Salaries and wages		38,054,903
Fringe benefits		16,421,917
Services and supplies		18,875,055
Utilities		2,118,208
Scholarships and fellowships		1,303,533
Depreciation expense		3,263,735
		80,037,351
Total operating expenses		80,037,351
Operating loss		(20,519,571)

NONOPERATING REVENUES (EXPENSES)

State appropriations		11,432,697
Federal grants		12,936,435
Gifts		173,770
Investment income		119,105
Endowment income		3,665
Gain on disposal of capital assets		736
Interest on capital asset related debt		(2,074,368)
		22,592,040
Net nonoperating revenues		22,592,040
Income before other revenues		2,072,469

Capital grants and gifts		27,300
Transfers (to)/from other campuses, net		247,532
		2,347,301
Change in net position		2,347,301

NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED

Restatement (Note 6)		(59,756,768)
		(64,282,225)

NET POSITION, BEGINNING OF YEAR, AS RESTATED

NET POSITION, END OF YEAR	\$	(61,934,924)
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UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Cash Flows
For the year ended June 30, 2018

OPERATING ACTIVITIES	
Student tuition and fees	\$ 34,397,406
Research grants and contracts	13,746,955
Sales and services of educational and other activities	3,184,874
Sales and services of auxiliary enterprises	7,321,473
Student loans disbursed	(49,000)
Student loans collected	107,412
Interest collected on student loans	11,974
Inflows from federal direct student loans	34,031,198
Outflows from federal direct student loans	(33,794,083)
Payments to employees for services	(38,137,144)
Payments to employees for benefits	(13,689,292)
Payments to suppliers	(21,125,749)
Payments to students for scholarships and fellowships	(1,303,533)
Other receipts	395,122
Inflows from agency funds	347,037
Outflows from agency funds	(261,792)
	<hr/>
Net cash used by operating activities	(14,817,142)
NONCAPITAL FINANCING ACTIVITIES	
State appropriations	11,432,697
Federal grants	12,936,435
Gifts	172,645
Transfers from other campuses, net	247,532
Federal loan liability	(223)
	<hr/>
Net cash provided by noncapital financing activities	24,789,086
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase and construction of capital assets	(789,690)
Principal paid on capital asset related debt	(2,111,737)
Interest paid on capital asset related debt	(2,029,068)
	<hr/>
Net cash used by capital and related financing activities	(4,930,495)
INVESTING ACTIVITIES	
Investment income	71,149
Endowment income	3,665
	<hr/>
Net cash provided by investing activities	74,814
Net increase (decrease) in cash and cash equivalents	<hr/> 5,116,263 <hr/>
Cash and cash equivalents, beginning of year	<hr/> 37,934,173 <hr/>
Cash and cash equivalents, end of year	<hr/>\$ 43,050,436<hr/>
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	\$ 34,320,259
Restricted - cash and cash equivalents, current	8,490,419
Restricted - cash and cash equivalents, noncurrent	239,758
	<hr/>
	<hr/>\$ 43,050,436<hr/>

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

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

Operating loss	\$	(20,519,571)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		3,263,735
Accrued benefits related to net pension and OPEB liabilities		2,736,150
Student loans cancelled		9,955
Change in current assets and liabilities:		
Accounts receivable, net		(289,239)
Student loans receivable		58,412
Inventories		35,221
Prepaid items		68,998
Accounts payable		(246,662)
Accrued payroll		52,316
Accrued benefits		(3,527)
Accrued compensated absences		(134,557)
Unearned revenues		(190,962)
Deposits		20,280
Funds held for and due from others		322,309
Net cash used by operating activities	\$	(14,817,142)

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	\$	27,300
Gain on disposal of capital assets, net	\$	736

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

	USC Upstate Foundation	USC Upstate Capital Development Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 632,301	\$ 48,838	\$ 681,139
Investments	10,974,649	-	10,974,649
Assets held in trust	317,362	-	317,362
Accounts receivable, net	-	119,367	119,367
Contributions receivable, net	1,906,970	-	1,906,970
Total assets	\$ 13,831,282	\$ 168,205	\$ 13,999,487
LIABILITIES			
Accounts payable and accrued expenses	\$ 32,935	\$ -	\$ 32,935
Bonds and notes payable	1,500,000	99,695	1,599,695
Other liabilities	598,218	-	598,218
Total liabilities	2,131,153	99,695	2,230,848
NET ASSETS			
Unrestricted	361,365	68,510	429,875
Temporarily restricted	4,656,932	-	4,656,932
Permanently restricted	6,681,832	-	6,681,832
Total Foundation net assets	11,700,129	68,510	11,768,639
Total liabilities and net assets	\$ 13,831,282	\$ 168,205	\$ 13,999,487

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

	USC Upstate Foundation	USC Upstate Capital Development Foundation	Total
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues, gains and other support			
Contributions	\$ 276,508	\$ -	\$ 276,508
Investment returns (losses)	3,416	6,505	9,921
Net realized and unrealized gains (losses)	92,399	-	92,399
Other	92,862	-	92,862
Net assets released from restrictions:			
Satisfaction of program restrictions	726,401	-	726,401
Total revenues, gains and other support	<u>1,191,586</u>	<u>6,505</u>	<u>1,198,091</u>
Expenses			
Scholarships and student assistance	92,947	-	92,947
Program services	274,841	-	274,841
Supporting services	477,035	-	477,035
Other expenses	147,810	12,898	160,708
Total expenses	<u>992,633</u>	<u>12,898</u>	<u>1,005,531</u>
Change in unrestricted net assets	<u>198,953</u>	<u>(6,393)</u>	<u>192,560</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	1,086,565	-	1,086,565
Investment returns (losses)	184,433	-	184,433
Net realized and unrealized gains (losses)	390,291	-	390,291
Other	50,227	-	50,227
Net assets released from restrictions:			
Satisfaction of program restrictions	(726,401)	-	(726,401)
Change in temporarily restricted net assets	<u>985,115</u>	<u>-</u>	<u>985,115</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	88,906	-	88,906
Change in permanently restricted net assets	<u>88,906</u>	<u>-</u>	<u>88,906</u>
Change in net assets	1,272,974	(6,393)	1,266,581
NET ASSETS, BEGINNING OF YEAR	<u>10,427,155</u>	<u>74,903</u>	<u>10,502,058</u>
NET ASSETS, END OF YEAR	<u>\$ 11,700,129</u>	<u>\$ 68,510</u>	<u>\$ 11,768,639</u>

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 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 2018 was \$120,901.

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 and OPEB 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 and OPEB liability - decreases in net pension and OPEB liability that were not included in expenses. Also, employer contributions subsequent to the measurement date of the net pension and OPEB 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 and OPEB liability that were not included in expenses.

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

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

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

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.

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

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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, 2018.

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

At June 30, 2018, \$71,566 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)	\$ 34,320,259
Restricted cash and cash equivalents (current) for:	
Debt service	410,625
Scholarship, research, instruction, and other	527,224
Capital projects	<u>7,552,570</u>
	<u>8,490,419</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	105,000
Federal student loans	<u>134,758</u>
	<u>239,758</u>
Investments (noncurrent)	<u>66,451</u>
Total	<u><u>\$ 43,116,887</u></u>
 Notes	
Cash on hand	\$ 97,712
Deposits held by State Treasurer	42,952,432
Other deposits	292
Other investments	<u>66,451</u>
Total	<u><u>\$ 43,116,887</u></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, 2018, \$101,345 of the \$42,952,432 identified above as "Deposits held by State Treasurer" is attributable to unrealized depreciation.

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	\$	935,303
Auxiliary enterprises		232,006
Federal grants and contracts		466,733
State grants and contracts		22,118
Non-governmental grants and contracts		43,219
Accrued interest		64,039
		1,763,418
Less allowance for doubtful accounts		(367,327)
Accounts receivable, net	\$	1,396,091

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 administrating the loan programs.

Capital Improvement Bonds Proceeds Receivable – This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn. There were no capital improvement bonds proceeds receivable as of June 30, 2018.

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land and improvements	\$ 270,000	\$ -	\$ -	\$ 270,000
Construction in progress	309,024	222,555	191,055	340,524
Works of art and historical treasures	5,000	-	-	5,000
Total capital assets not being depreciated	<u>584,024</u>	<u>222,555</u>	<u>191,055</u>	<u>615,524</u>
Other capital assets				
Land improvements	2,651,840	-	-	2,651,840
Buildings and improvements	109,341,381	191,056	-	109,532,437
Machinery, equipment and other	7,306,773	717,469	940,765	7,083,477
Vehicles	1,378,372	90,420	84,860	1,383,932
Total capital assets at historical cost	<u>120,678,366</u>	<u>998,945</u>	<u>1,025,625</u>	<u>120,651,686</u>
Less accumulated depreciation for				
Land improvements	1,326,236	84,304	-	1,410,540
Buildings and improvements	41,242,229	2,569,315	81,201	43,730,343
Machinery, equipment and other	5,298,758	506,186	745,529	5,059,415
Vehicles	1,087,657	103,930	85,460	1,106,127
Total accumulated depreciation	<u>48,954,880</u>	<u>3,263,735</u>	<u>912,190</u>	<u>51,306,425</u>
Other capital assets, net	<u>71,723,486</u>	<u>(2,264,790)</u>	<u>113,435</u>	<u>69,345,261</u>
Capital assets, net	<u>\$ 72,307,510</u>	<u>\$ (2,042,235)</u>	<u>\$ 304,490</u>	<u>\$ 69,960,785</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 (9.00 percent) and a portion of the employer contribution (5.00 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (8.41 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

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

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

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

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

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

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 2017-2018 are as follows:

<u>SCRS</u>	
Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation
<u>ORP</u>	
	9.00% of earnable compensation
<u>PORS</u>	
Employee Class II	9.75% of earnable compensation
Employee Class III	9.75% of earnable compensation

Required **employer** contribution rates¹ for fiscal year 2017-2018 are as follows:

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

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

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

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

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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Net Pension Liability - At June 30, 2018, the Campus reported liabilities of \$77,990,505 and \$759,718 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2017, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The 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, 2017, the Campus' proportionate shares of the SCRS and PORS plans were 0.320570% and 0.027730%.

Pension Expense - For the year ended June 30, 2018, the Campus recognized pension expense of \$7,528,017 and \$136,185 for SCRS and PORS, respectively, for a total pension expense of \$7,664,202.

Deferred inflows of resources and deferred outflows of resources – At June 30, 2018, 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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 345,585	\$ 42,967
Changes of assumptions	4,537,975	-
Net difference between projected and actual earnings on pension plan investments	2,164,000	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	1,329,585	495,846
Campus contributions subsequent to the measurement date	3,755,242	-
Total	<u>\$ 12,132,387</u>	<u>\$ 538,813</u>

Police Officers Retirement System

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,950	\$ -
Changes of assumptions	116,547	-
Net difference between projected and actual earnings on pension plan investments	43,758	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	36,615	9,104
Campus contributions subsequent to the measurement date	121,403	-
Total	<u>\$ 329,273</u>	<u>\$ 9,104</u>

The \$3,755,242 and \$121,403 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, 2018 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2019.

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:	
2019	\$ 2,350,547
2020	3,501,064
2021	2,529,339
2022	(542,618)
	\$ 7,838,332

	PORS
Year ended June 30:	
2019	\$ 56,630
2020	76,568
2021	56,460
2022	9,108
	\$ 198,766

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

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

The June 30, 2017, total pension liability (TPL), net pension liability (NPL), and sensitivity information were determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.5% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2017 for SCRS and PORS.

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

¹ Includes inflation at 2.75%

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

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

Net Pension Liability - The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2017, NPL totals for SCRS and PORS are as follows (amounts expressed in thousands):

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension
SCRS	\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.3%
PORS	7,013,684,001	4,274,123,178	2,739,560,823	60.9%

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	4.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$98,836,278	\$77,990,505	\$65,342,071
PORS	1,025,764	759,718	550,158

Additional Financial and Actuarial Information - Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

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

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.50% of annual covered payroll for 2018 and 5.33% of annual covered payroll for 2017. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$1,965,000 and \$1,869,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2018 and 2017, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2018. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

Net OPEB Liability - At June 30, 2018, the Campus reported liabilities of \$55,939,134 and \$6,352 for its proportionate share of the SCRHITF and SCLTDITF net OPEB liability, respectively. The OPEB liabilities were measured as of June 30, 2017, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation as of that date. The Campus' proportionate shares of the OPEB liabilities were based on the Campus' long-term share of contributions to the postemployment benefits plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Campus' proportionate shares of the SCRHITF and SCLTDITF plans were 0.412992% and 0.350363%, respectively.

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

South Carolina Long-Term Disability Insurance Trust Fund

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	576
Net difference between projected and actual earnings on OPEB plan investments	3,060	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	-	158
Campus contributions subsequent to the measurement date	17,465	-
Total	<u>\$ 20,525</u>	<u>\$ 734</u>

South Carolina Retiree Health Insurance Trust Fund

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 24,278
Changes of assumptions	-	5,263,612
Net difference between projected and actual earnings on OPEB plan investments	96,119	-
Changes in proportion and differences between Campus contributions and proportionate share of contributions	-	801
Campus contributions subsequent to the measurement date	1,928,470	-
Total	<u>\$ 2,024,589</u>	<u>\$ 5,288,691</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

	SCLTDITF
Year ended June 30:	
2019	\$ 683
2020	683
2021	683
2022	683
2023	(82)
Thereafter	(324)
	\$ 2,326

	SCRHITF
Year ended June 30:	
2019	\$ (822,702)
2020	(822,702)
2021	(822,702)
2022	(822,702)
2023	(846,733)
Thereafter	(1,055,031)
	\$ (5,192,572)

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

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Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

The following table provides a summary of the actuarial assumptions and methods used in the June 30, 2016 actuarial valuation for SCRHITF:

Actuarial Methods and Assumptions:

Actuarial cost method	Entry age normal
Inflation	2.25%
Investment rate of return	4.00%, net of OPEB plan investment expense, including inflation
Single discount rate	3.56% as of June 30, 2017
Demographic assumptions	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015
Mortality assumptions	RP-2000 Mortality (White Collar Adjustment for Educators), projected using Scale AA from Year 2000. Male rates multiplied by 100% for non-educators and 110% for educators. Female rates multiplied by 90% for non-educators and 95% for educators
Healthcare trend rate	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Participation assumptions	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Aging factors	Based on plan specific experience
Expenses	The investment return assumption is net of the investment expenses; Administrative expenses related to the health care benefits are included in the age-adjusted claims costs
Roll forward disclosure	The actuarial valuation was performed as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017
Notes	There were no benefit changes during the year The discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

The following table provides a summary of the actuarial assumptions and methods used in the June 30, 2016 actuarial valuation for SCLTDITF:

Actuarial Methods and Assumptions:

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

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

The Single Discount Rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Long Term Expected Rate of Return

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

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

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

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

1% Decrease	Current Discount Rate	1% Increase
(2.56%)	(3.56%)	(4.56%)
<u>\$ 65,880,489</u>	<u>\$ 55,939,134</u>	<u>\$ 47,923,968</u>

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

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

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
<u>\$ 45,872,408</u>	<u>\$ 55,939,134</u>	<u>\$ 68,973,125</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

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

1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 11,300	\$ 6,352	\$ 1,495

Restatement for adoption of New Accounting Standard - The Campus implemented Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. The implementation of the statement required the Campus to record beginning net OPEB liability and the effects on unrestricted net position of contributions made by the Campus during the measurement period (fiscal year ended June 30, 2017). As a result, ending unrestricted net position for the Campus for the year ended June 30, 2017 decreased by \$59,756,768. This decrease resulted in the restatement of unrestricted net position.

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 \$123,230 for capital and \$1,920 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

2019	\$	941,885
2020		911,898
2021		894,799
2022		843,500
2023		843,500
2024-2028		4,217,500
2029-2033		967,500
2034-2036		532,125
Total minimum lease payments		\$ 10,152,707

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 8 - LEASE OBLIGATIONS, Continued

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2019-2036. 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 \$1,020,252 for fiscal year 2018.

Capital Leases - Buildings and land held by the Campus as of June 30, 2018:

	Cost	Accumulated Depreciation	Net
Buildings	\$ 393,703	\$ 83,663	\$ 310,040
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:

2019	\$ 78,000
2020	39,000
	117,000
Total minimum lease payments	117,000
Less amount representing interest	(3,721)
	\$ 113,279

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.

\$ 113,279

Present value of minimum lease payments by lease

\$ 113,279

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, 2018 Balance	Debt Retired in Fiscal Year 2018
State Institution Bonds					
Series 2009B	\$ 6,035,000	3.5% to 5%	04/01/29	\$ 3,765,000	\$ 270,000
Series 2011A Refunding	885,000	3.5% to 5%	03/01/22	360,000	80,000
Series 2014A	3,450,000	3% to 5%	04/01/34	2,965,000	125,000
Series 2015B Refunding	5,735,000	5%	04/01/26	4,780,000	485,000
Total State Institution Bonds				11,870,000	960,000
Revenue Bonds					
Series 2009A	28,920,000		06/01/39	-	675,000
Series 2013	10,890,000	3% to 5%	05/01/43	9,030,000	405,000
Series 2016 Refunding	20,910,000	4% to 5%	05/01/39	20,910,000	-
Total Revenue Bonds				29,940,000	1,080,000
Subtotal bonds payable				41,810,000	2,040,000
Plus unamortized bond premiums				6,913,417	202,859
Less unamortized bond discounts				-	(348,590)
Total Bonds Payable				\$ 48,723,417	\$ 1,894,269

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2018 was \$2,702,031 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 2018 were \$2,533,638 from sales and services of auxiliary enterprises.

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 9 - BONDS PAYABLE, Continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
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	1,090,000	335,794	1,425,794
2024-2028	4,805,000	889,488	5,694,488
2029-2033	1,510,000	173,237	1,683,237
2034	240,000	8,400	248,400
Total	\$ 11,870,000	\$ 3,254,495	\$ 15,124,495
Revenue Bonds			
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	1,285,000	1,188,063	2,473,063
2024-2028	7,405,000	4,930,763	12,335,763
2029-2033	9,295,000	3,003,963	12,298,963
2034-2038	7,135,000	1,025,850	8,160,850
2039-2043	305,000	12,200	317,200
Total	\$ 29,940,000	\$ 15,493,341	\$ 45,433,341

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 12,830,000	\$ -	\$ 960,000	\$ 11,870,000	\$ 995,000	\$ 10,875,000
Revenue Bonds	31,020,000	-	1,080,000	29,940,000	1,035,000	28,905,000
Subtotal Bonds Payable	43,850,000	-	2,040,000	41,810,000	2,030,000	39,780,000
Unamortized Bond Premiums	7,116,276	-	202,859	6,913,417	424,061	6,489,356
Unamortized Bond Discounts	(348,590)	-	(348,590)	-	-	-
Total Bonds Payable	\$ 50,617,686	\$ -	\$ 1,894,269	\$ 48,723,417	\$ 2,454,061	\$ 46,269,356
Capital Lease Obligations	\$ 185,015	\$ -	\$ 71,736	\$ 113,279	\$ 74,742	\$ 38,537
Accrued Compensated Absences	\$ 1,728,369	\$ 1,495,421	\$ 1,629,978	\$ 1,593,812	\$ 1,227,235	\$ 366,577

Additional information regarding bonds payable is included in Note 9.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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.

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

Funds Received from Component Units

USC Upstate Foundation	\$ 167,358
USC Upstate Capital Development Foundation	-
Total	<u><u>\$ 476,592</u></u>

Funds Paid to Component Units

USC Upstate Foundation	\$ 12,000
USC Upstate Capital Development Foundation	78,000
Total	<u><u>\$ 90,000</u></u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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 from Spartanburg County. The Commission paid expenditures on behalf of USC Upstate of \$21,138 for the fiscal year ended June 30, 2018. USC Upstate provides accounting and record maintenance services to the Commission at no charge. The Commission owns six duplexes, one has a mortgage, located adjacent to campus. These properties are managed by a rental company and are not considered student housing. The proceeds from these rentals are added to the \$393,158 endowment or the operating funds of the Commission. At June 30, 2018, the Commission had a net position of \$857,486.

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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 13 – RISK MANAGEMENT, Continued

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

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

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

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

NOTE 14 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 20,805,272	\$ 8,768,605	\$ 1,854,388	\$ -	\$ 272	\$ -	\$ 31,428,537
Research	96,210	18,978	29,201	-	246	-	144,635
Public service	779,694	305,645	371,785	-	3,448	-	1,460,572
Academic support	3,120,348	1,340,563	1,787,783	-	1,473	-	6,250,167
Student services	4,611,854	1,952,789	3,133,640	-	(1,247)	-	9,697,036
Institutional support	4,813,368	2,103,875	4,207,967	-	87	-	11,125,297
Operation & plant maintenance	2,984,726	1,431,011	5,008,548	1,618,969	1	-	11,043,255
Auxiliary enterprises	819,505	287,234	2,467,318	499,239	-	-	4,073,296
Scholarships and fellowships	23,926	213,217	14,425	-	1,299,253	-	1,550,821
Depreciation	-	-	-	-	-	3,263,735	3,263,735
Total operating expenses	\$ 38,054,903	\$ 16,421,917	\$ 18,875,055	\$ 2,118,208	\$ 1,303,533	\$ 3,263,735	\$ 80,037,351

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

	SCRS				
	2018	2017	2016	2015	2014
Campus' proportion of the net pension liability	0.320570%	0.331640%	0.340992%	0.343940%	0.343940%
Campus' proportionate share of the net pension liability	\$ 77,990,505	\$ 71,798,931	\$ 64,670,755	\$ 59,217,099	\$ 61,690,365
Campus' covered-employee payroll during the measurement period	\$ 21,565,300	\$ 21,173,900	\$ 21,450,964	\$ 21,271,140	\$ 20,651,807
Campus' proportionate share of the net pension liability as a percentage of its covered-employee payroll	361.65%	339.09%	301.48%	278.39%	298.72%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.91%	56.99%	59.90%	56.39%

	PORS				
	2018	2017	2016	2015	2014
Campus' proportion of the net pension liability	0.027730%	0.055142%	0.055494%	0.055920%	0.055920%
Campus' proportionate share of the net pension liability	\$ 759,718	\$ 1,398,671	\$ 1,209,494	\$ 1,070,541	\$ 1,159,199
Campus' covered-employee payroll during the measurement period	\$ 777,986	\$ 708,899	\$ 686,692	\$ 674,433	\$ 680,580
Campus' proportionate share of the net pension liability as a percentage of its covered-employee payroll	97.65%	197.30%	176.13%	158.73%	170.33%
Plan fiduciary net position as a percentage of the total pension liability	60.90%	60.44%	64.57%	67.50%	62.98%

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

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

	SCRS				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 3,755,242	\$ 3,738,993	\$ 3,427,532	\$ 3,353,440	\$ 3,309,868
Contributions made to pension plan	3,755,242	3,738,993	3,427,532	3,353,440	3,309,868
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Campus' covered employee payroll	\$ 21,234,754	\$ 21,565,300	\$ 21,173,900	\$ 21,450,964	\$ 21,271,140
Contributions as a portion of covered employee payroll	17.68%	17.34%	16.19%	15.63%	15.56%

	PORS				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 121,403	\$ 110,785	\$ 96,591	\$ 91,561	\$ 86,358
Contributions made to pension plan	121,403	110,785	96,591	91,561	86,358
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Campus' covered employee payroll	\$ 754,803	\$ 777,986	\$ 708,899	\$ 686,692	\$ 674,433
Contributions as a portion of covered employee payroll	16.08%	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.

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

	SCLTDITF	
	2018	2017
Campus' proportion of the net OPEB liability	0.350363%	0.350363%
Campus' proportionate share of the net OPEB liability	<u>\$ 6,352</u>	<u>\$ 2,424</u>
Campus' covered-employee payroll during the measurement period	<u>\$ 35,059,572</u>	<u>\$ 33,669,302</u>
Campus' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.02%	0.01%
Plan fiduciary net position as a percentage of the total OPEB liability	95.29%	95.29%

	SCRHITF	
	2018	2017
Campus' proportion of the net OPEB liability	0.412992%	0.412992%
Campus' proportionate share of the net OPEB liability	<u>\$ 55,939,134</u>	<u>\$ 59,754,344</u>
Campus' covered-employee payroll during the measurement period	<u>\$ 35,059,572</u>	<u>\$ 33,669,302</u>
Campus' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	159.55%	177.47%
Plan fiduciary net position as a percentage of the total OPEB liability	7.60%	7.60%

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

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

	South Carolina Long-Term Disability Insurance Trust Fund	
	2018	2017
Contractually required contribution	\$ 17,465	\$ 17,397
Contributions made to plan	17,465	17,397
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Campus' covered employee payroll	\$ 35,725,238	\$ 35,059,572
Contributions as a portion of covered employee payroll	0.05%	0.05%

	South Carolina Retiree Health Insurance Trust Fund	
	2018	2017
Contractually required contribution	\$ 1,928,470	\$ 1,868,675
Contributions made to plan	1,928,470	1,868,675
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Campus' covered employee payroll	\$ 35,725,238	\$ 35,059,572
Contributions as a portion of covered employee payroll	5.40%	5.33%

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Upstate (the Campus), a campus of the University of South Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated November 16, 2018. Our report includes a reference to other auditors who audited the financial statements of the 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.



Columbia, South Carolina
November 16, 2018