

UNIVERSITY OF SOUTH CAROLINA - Upstate

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2022**

UNIVERSITY OF SOUTH CAROLINA - Upstate

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of South Carolina – Upstate (the Campus), a campus of the University of South Carolina (the University), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements as listed in the table of contents.

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 discretely presented component unit of the Campus, as of June 30, 2022, 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.

We did not audit the financial statements of the USC Upstate Foundation and Supporting Organization. Those statements were audited by an other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the USC Upstate Foundation and Supporting Organization is based solely on the report of the other auditor.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Campus and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the USC Upstate Foundation and Supporting Organization were not audited in accordance with *Government Auditing Standards*.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Campus are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of the Campus. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Campus' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, 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 solely 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 the effectiveness of the Campus' 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 Campus' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Charlotte, North Carolina
November 18, 2022

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Net Position
As of June 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 60,304,669
Restricted - cash and cash equivalents	22,759,171
Accounts receivable, net	9,470,880
Inventories	547,374
Prepaid items	4,401
Funds due from others	117,817
	<hr/>
Total current assets	93,204,312

Noncurrent assets:

Restricted - cash and cash equivalents	199,220
Restricted - federal student loans receivable	270,077
Capital assets, net of accumulated depreciation	74,352,072
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Total noncurrent assets	74,821,369
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Total assets	168,025,681

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on debt refunding	1,747,881
Deferred outflows related to net OPEB liability	21,787,225
Deferred outflows related to net pension liability	11,266,711
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Total deferred outflows of resources	34,801,817

LIABILITIES

Current liabilities:

Accounts payable	259,260
Retainage payable	185,134
Accrued interest payable	282,001
Accrued payroll and related liabilities	858,081
Accrued compensated absences - current portion	1,524,203
Lease obligations - current portion	741,266
Bonds payable - current portion	2,797,312
Unearned revenues	779,649
Deposits	199,313
Other liabilities	2,675
	<hr/>
Total current liabilities	7,628,894

Noncurrent liabilities:

Accrued compensated absences	114,725
Federal loan liability	303,576
Lease obligations	6,632,185
Bonds payable	35,536,468
Net OPEB liability	82,991,267
Net pension liability	76,637,125
	<hr/>
Total noncurrent liabilities	202,215,346
	<hr/>
Total liabilities	209,844,240

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net OPEB liability	6,940,806
Deferred inflows related to net pension liability	11,853,333
	<hr/>
Total deferred inflows of resources	18,794,139

NET POSITION

Net investment in capital assets	30,207,588
Restricted for:	
Nonexpendable	105,000
Expendable	
Scholarships, research, instruction, and other	1,270,850
Loans	58,045
Capital projects	29,559,581
Debt service	18,163
Unrestricted	(87,030,108)
	<hr/>
Total net position	<u><u>\$ (25,810,881)</u></u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2022

OPERATING REVENUES

Student tuition and fees (\$2,265,960 pledged for bonds)	\$ 55,355,126
Less: scholarship allowance	(28,136,176)
Federal grants and contracts	2,497,016
State grants and contracts	14,004,749
Local grants and contracts	10,000
Nongovernmental grants and contracts	45,962
Sales and services of educational and other activities	2,937,406
Sales and services of auxiliary enterprises (\$2,474,313 pledged for bonds)	5,135,995
Less: scholarship allowance	(908,206)
Interest collected on student loans	9,346
Other fees	286,618
Other operating revenues	343,507
Total operating revenues	<u>51,581,343</u>

OPERATING EXPENSES

Salaries and wages	39,870,839
Fringe benefits	19,406,131
Services and supplies	19,356,713
Utilities	1,912,732
Scholarships and fellowships	12,487,120
Depreciation expense	4,079,055
Total operating expenses	<u>97,112,590</u>
Operating loss	<u>(45,531,247)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	18,764,656
Federal grants	37,472,737
Gifts	426,300
Investment income (loss)	(644,325)
Endowment income (loss)	3,199
Interest on capital asset related debt	(1,636,878)
Net nonoperating revenues	<u>54,385,689</u>
Income before other revenues	8,854,442
State capital appropriations	19,017,615
Transfers (to)/from other campuses, net	246,019
Change in net position	<u>28,118,076</u>
NET POSITION, BEGINNING OF YEAR	<u>(53,928,957)</u>
NET POSITION, END OF YEAR	<u><u>\$ (25,810,881)</u></u>

University of South Carolina - Upstate
Statement of Cash Flows
For the Year Ended June 30, 2022

OPERATING ACTIVITIES

Student tuition and fees	\$ 27,029,007
Grants and contracts	18,209,890
Sales and services of educational and other activities	2,920,436
Sales and services of auxiliary enterprises	4,470,938
Student loans disbursed	(62,200)
Student loans collected	66,160
Interest collected on student loans	9,346
Inflows from federal direct student loans	24,221,791
Outflows from federal direct student loans	(24,221,791)
Payments to employees for services	(39,965,986)
Payments to employees for benefits	(16,110,972)
Payments to suppliers	(21,226,048)
Payments to students for scholarships and fellowships	(12,487,120)
Other receipts	630,125
Inflows from funds due to and held for others	13,343
Outflows from funds due to and held for others	(85,848)
Net cash used by operating activities	<u>(36,588,929)</u>

NONCAPITAL FINANCING ACTIVITIES

State and local appropriations	18,764,656
Federal grants	37,720,328
Gifts	426,300
Transfers to other campuses, net	246,019
Federal loan liability	(77,756)
Net cash provided by noncapital financing activities	<u>57,079,547</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations	11,017,615
Purchase and construction of capital assets	(6,352,127)
Principal paid on capital asset related debt	(3,361,064)
Interest paid on capital asset related debt	(2,005,135)
Net cash used by capital and related financing activities	<u>(700,711)</u>

INVESTING ACTIVITIES

Investment income (loss)	(605,618)
Endowment income (loss)	3,199
Net cash used by investing activities	<u>(602,419)</u>
Net increase (decrease) in cash and cash equivalents	<u>19,187,488</u>

Cash and cash equivalents, beginning of year

64,075,572

Cash and cash equivalents, end of year

\$ 83,263,060

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 60,304,669
Restricted - cash and cash equivalents, current	22,759,171
Restricted - cash and cash equivalents, noncurrent	199,220
	<u>\$ 83,263,060</u>

University of South Carolina - Upstate
Statement of Cash Flows
For the Year Ended June 30, 2022

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

Operating loss	\$ (45,531,247)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	4,079,055
Accrued benefits related to net pension liability	3,295,043
Student loans cancelled	35,722
Change in current assets and liabilities:	
Accounts receivable, net	1,912,018
Student loans receivable	3,960
Inventories	122,166
Prepaid items	(4,102)
Accounts payable	(110,389)
Accrued payroll	4,286
Accrued benefits	117
Accrued compensated absences	(100,053)
Unearned revenues	(175,880)
Deposits	(47,740)
Other liabilities	620
Funds held for and due from others	(72,505)
Net cash used by operating activities	<u><u>\$ (36,588,929)</u></u>

NONCASH TRANSACTIONS

Capital assets acquired through leases	<u><u>\$ 442</u></u>
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UNIVERSITY OF SOUTH CAROLINA - Upstate
USC Upstate Foundation and Supporting Organization
Nongovernmental Discretely Presented Component Unit
Statement of Financial Position
June 30, 2022

ASSETS

Cash and cash equivalents	\$ 161,169
Investments	15,071,006
Assets held by others	281,264
Contributions receivable, net	<u>1,350,500</u>
Total assets	<u>16,863,939</u>

LIABILITIES

Accounts payable and accrued expenses	41,256
Deferred revenues	175,000
Other liabilities	<u>184,921</u>
Total liabilities	<u>401,177</u>

NET ASSETS

Without donor restrictions	849,868
With donor restrictions	<u>15,612,894</u>
Total Foundation net assets	<u>16,462,762</u>
Total liabilities and net assets	<u>\$ 16,863,939</u>

UNIVERSITY OF SOUTH CAROLINA - Upstate
USC Upstate Foundation and Supporting Organization
Nongovernmental Discretely Presented Component Unit
Statement of Activities
For the year ended June 30, 2022

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Revenues, gains and other support	
Contributions	\$ 278,441
Investment returns (losses)	40,157
Net realized and unrealized gains (losses)	(417,437)
Other	113,998
Satisfaction of program restrictions	<u>1,071,989</u>
Total revenues, gains and other support	<u>1,087,148</u>
Expenses	
Scholarships and student assistance	158,380
Program services	488,177
Supporting services	954,227
Other expenses	<u>89,322</u>
Total expenses	<u>1,690,106</u>
Change in net assets without donor restrictions	<u>(602,958)</u>

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS

Contributions	2,479,978
Investment returns (losses)	52,198
Net realized and unrealized gains (losses)	(1,982,271)
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(1,071,989)</u>
Change in net assets with donor restrictions	<u>(522,084)</u>
Change in net assets	(1,125,042)
NET ASSETS, BEGINNING OF YEAR	<u>17,587,804</u>
NET ASSETS, END OF YEAR	<u><u>\$ 16,462,762</u></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 unit is 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 elected by 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. Estimates are also used for the net other post-employment benefits (OPEB) and net pension liabilities as calculated by the South Carolina Public Employee Benefit Authority (PEBA). 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, by the Campus' special deposit accounts is posted at the end of each month based on the percentage of the Campus' accumulated daily income receivable to the total income receivable of the pool. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

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

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

Noncurrent Cash - Noncurrent cash 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 and leased assets with a unit value in excess of \$5,000 and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 60 years for buildings and improvements and land improvements; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month of disposition.

Leases – The Campus determines if an agreement is a lease at inception. Lessee agreements are included in the statement of net position as capital assets (lease assets) and leases payable. Lease assets represent the Campus' right to use an asset for the specified lease term. Lease assets and liabilities are recorded based on the present value of expected payments over the term of the leases. In accordance with Campus policy, payments on leases with a term of 12 months or less or leases with a present value of \$5,000 (for equipment leases) and \$100,000 (for property leases) or less are expensed as incurred. These leases are not included in assets or liabilities on the statement of net position.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of bonds payable, and leases payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) net pension and OPEB liabilities.

Funds Due from Others - Current balances in Funds Due from Others represent custodial funds owed to the Campus on a short-term basis (three months or less) for groups and organizations that account for activities in the Campus' accounting system and whose cash is part of the cash held on deposit with the State.

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 amount on debt refunding – the defeasance of previously outstanding bonds resulted in deferred refunding losses. These deferred amounts 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 liabilities - increases in net pension and OPEB liabilities that were not included in expenses. Also, employer contributions subsequent to the measurement date of the net pension and OPEB liabilities are reported as deferred outflows of resources.

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

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

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

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

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.

When an expense is incurred that can use both restricted and unrestricted resources the expense is first applied to restricted resources then to unrestricted resources.

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

Classification of Revenues - The Campus has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campus' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships 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;
- (4) contracts that are essentially the same as contracts for services that finance programs the Campus would not otherwise undertake; and
- (5) payment by grant from governmental and non-governmental entities for the purpose of conducting research activities.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts, 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.

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, 2022.

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, 2022, \$100,646 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented cumulative net appreciation of donor-restricted endowments.

New Accounting Pronouncements

GASB Statement No. 87, *Leases*: This Statement requires recognition of assets, liabilities, and deferred inflows of resources for leases previously classified as operating leases, based on the payment provisions of the contract. This Statement applies to all leases (lessee and lessor) with a term greater than one year. The Campus implemented this Statement in fiscal year 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*: This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Interest cost will now be recognized as an expense in the period in which the cost is incurred. The Campus implemented this Statement in fiscal year 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*: This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The Campus will continue to evaluate this Statement and its impact on the financial statements. The requirements of this Statement are effective for the Campus in fiscal year 2023.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 2 - CASH AND CASH EQUIVALENTS AND OTHER DEPOSITS

Most deposits of the Campus are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain deposits are deposited with or managed by financial institutions and brokers as restricted by donors.

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

Statement of Net Position	
Cash and cash equivalents (current)	\$ 60,304,669
Restricted cash and cash equivalents (current) for:	
Debt service	294,247
Scholarship, research, instruction, and other	657,588
Capital projects	21,807,336
	<u>22,759,171</u>
Restricted cash and cash equivalents (noncurrent) for:	
Endowments	105,000
Federal student loans	94,220
	<u>199,220</u>
Total	<u>\$ 83,263,060</u>
 Disclosure, Deposits	
Cash on hand	\$ 16,016
Deposits held by State Treasurer	83,246,462
Other deposits	582
Total	<u>\$ 83,263,060</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 Annual Comprehensive Financial Report (ACFR) 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 ACFR of the State of South Carolina. For the fiscal year ended June 30, 2022, the balance of \$83,246,462 identified above as "Deposits held by State Treasurer" includes the reduction of unrealized depreciation of \$517,586.

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.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student	\$ 1,038,576
Auxiliary enterprises	310,075
Federal grants and contracts	637,281
State grants and contracts	6,870
State capital appropriations	8,000,000
Accrued interest	74,228
	<hr/> 10,067,030
Less allowance for doubtful accounts	<hr/> (596,150)
Accounts receivable, net	<u>\$ 9,470,880</u>

State capital appropriations receivable represent outstanding Capital Reserve funds that have been appropriated but not yet drawn. The State has authorized these funds for improvements and expansion of state facilities. The Campus is not obligated to repay these funds to the State.

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 4 - CAPITAL ASSETS

	June 30, 2021	GASB 87 Accounting Change	Additions	Reductions	Net Transfers	June 30, 2022
Capital assets not being depreciated						
Land	\$ 654,747	\$ -	\$ -	\$ -	\$ -	\$ 654,747
Construction in progress	1,964,248	-	6,025,389	586,822	(1,077,649)	6,325,166
Works of art and historical treasures	68,540	-	-	-	-	68,540
Total capital assets not being depreciated	2,687,535	-	6,025,389	586,822	(1,077,649)	7,048,453
Other capital assets						
Land improvements	2,651,840	-	-	-	-	2,651,840
Buildings and improvements	110,145,057	-	-	-	1,077,649	111,222,706
Machinery, equipment and other	7,187,270	-	837,450	89,760	-	7,934,960
Vehicles	1,583,545	-	25,266	48,868	-	1,559,943
Leased buildings and improvements	-	7,661,789	442	1,621	-	7,660,610
Leased machinery, equipment and other	-	326,435	-	-	-	326,435
Total capital assets at historical cost	121,567,712	7,988,224	863,158	140,249	1,077,649	131,356,494
Less accumulated depreciation for						
Land improvements	1,663,452	-	84,304	-	-	1,747,756
Buildings and improvements	51,725,204	-	2,587,107	-	-	54,312,311
Machinery, equipment and other	5,465,266	-	451,788	89,760	-	5,827,294
Vehicles	1,260,147	-	131,240	48,868	-	1,342,519
Leased buildings and improvements	-	-	729,074	1,621	-	727,453
Leased machinery, equipment and other	-	-	95,542	-	-	95,542
Total accumulated depreciation	60,114,069	-	4,079,055	140,249	-	64,052,875
Other capital assets, net	61,453,643	7,988,224	(3,215,897)	-	1,077,649	67,303,619
Capital assets, net	<u>\$ 64,141,178</u>	<u>\$ 7,988,224</u>	<u>\$ 2,809,492</u>	<u>\$ 586,822</u>	<u>\$ -</u>	<u>\$ 74,352,072</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 an Annual Comprehensive Financial Report containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The Annual Comprehensive Financial Report is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive 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 Campus, 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 (11.41 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 - Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Required **employee** contribution rates for fiscal year 2021-2022 are as follows:

SCRS

Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation

ORP

9.00% of earnable compensation

PORS

Employee Class II	9.75% of earnable compensation
Employee Class III	9.75% of earnable compensation

Required **employer** contribution rates¹ for fiscal year 2021-2022 are as follows:

SCRS

Employer Class II	16.41% of earnable compensation
Employer Class III	16.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

ORP

Employer Contribution ²	16.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class II	18.84% of earnable compensation
Employer Class III	18.84% 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.

Net Pension Liability – At June 30, 2022, the Campus reported liabilities of \$75,365,419 and \$1,271,706 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2021, 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, 2021, the Campus' proportionate shares of the SCRS and PORS plans were 0.316834% and 0.049427%, respectively.

Pension Expense – For the year ended June 30, 2022, the Campus recognized pension expense of \$5,081,384 and \$110,976 for SCRS and PORS, respectively, for a total pension expense of \$5,192,360.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Non-employer Contributions – Employer's proportionate shares were calculated on the basis of employer contributions remitted to the plan by employers and non-employer contributions appropriated in the State's budget. In an effort to offset a portion of the burden of the increased contribution requirement for employers, the General Assembly funded 1 percent of the SCRS and PORS contribution increases for fiscal year 2021. The State budget appropriated these funds directly to PEBA and a credit was issued for each employer to use when submitting their quarterly remittances to PEBA. For the year ended June 30, 2021 measurement period, PEBA provided non-employer contribution to the Campus in the amount of \$359,859 which is shown as a reduction to net pension liability and other grant revenue in the year ended June 30, 2022.

Deferred inflows of resources and deferred outflows of resources – At June 30, 2022, the Campus reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

South Carolina Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,183,975	\$ 93,430
Changes of assumptions	3,804,594	-
Net difference between projected and actual earnings on pension plan investments	-	10,056,195
Changes in proportion and differences between Campus contributions and proportionate share of contributions	120,573	1,349,825
Campus contributions subsequent to the measurement date	5,925,329	-
Total	<u>\$ 11,034,471</u>	<u>\$ 11,499,450</u>

Police Officers Retirement System

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,373	\$ 3,043
Changes of assumptions	69,971	-
Net difference between projected and actual earnings on pension plan investments	-	219,054
Changes in proportion and differences between Campus contributions and proportionate share of contributions	14,923	131,786
Campus contributions subsequent to the measurement date	113,973	-
Total	<u>\$ 232,240</u>	<u>\$ 353,883</u>

The \$5,925,329 and \$113,973 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, 2022 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2023.

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:	
2023	\$ (767,082)
2024	(688,450)
2025	(1,184,061)
2026	(3,750,715)
	<u>\$ (6,390,308)</u>

	PORS
Year ended June 30:	
2023	\$ (44,530)
2024	(54,653)
2025	(54,592)
2026	(81,841)
	<u>\$ (235,616)</u>

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

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2021, 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, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2021, using generally accepted actuarial principles.

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, 2021 for SCRS and PORS.

	SCRS	PORS
	Entry age normal	Entry age normal
Actuarial cost method		
Investment rate of return ¹	7.00%	7.00%
Projected salary increases	3.0% to 11.0% (varies by service) ¹	3.5% to 10.5% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2020.

Assumptions used in the June 30, 2021 TPL are as follows:

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

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, 2021, 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 Liability
SCRS	\$ 55,131,579,363	\$ 33,490,305,970	\$ 21,641,273,393	60.7%
PORS	8,684,586,488	6,111,672,064	2,572,914,424	70.4%

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 2021 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 7.00 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

Allocation / Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Public Equity ¹	46.0%	6.87%	3.16%
Bonds	26.0%	0.27%	0.07%
Private Equity ^{1,2}	9.0%	9.68%	0.87%
Private Debt ²	7.0%	5.47%	0.39%
Real Assets	12.0%		
Real Estate ²	9.0%	6.01%	0.54%
Infrastructure ²	3.0%	5.08%	0.15%
Total Expected Return ³	100.0%		5.18%
Inflation for Actuarial Purposes			2.25%
			7.43%

¹ The target weights to Private Equity will be equal its actual weight, reported by the custodial bank, as of prior month end. When flows have occurred, flow adjusted weights are used to more accurately reflect the impact of the asset class weight. Private Equity and Public Equity combine for 55% of the entire portfolio.

² Staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

³ Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 20% of total assets.

Discount Rate – The discount rate used to measure the TPL was 7.00 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 7.00 percent, as well as what the Campus' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$89,814,244	\$75,365,419	\$50,906,161
PORS	1,845,083	1,271,706	802,023

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, 2021 (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, 2021.

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 Annual Comprehensive Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Funding Policies – Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 6.25 percent of annual covered payroll for 2021. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid \$2,461,237, including the implicit subsidy, applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2022. 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, 2022. 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. The SCLTDITF is considered immaterial and is not included in the Campus' financial statements as well as the related notes and required supplementary information.

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

Net OPEB Liability – At June 30, 2022, the Campus reported a liability of \$82,991,267 for its proportionate share of the SCRHITF net OPEB liability. The OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Campus' proportionate share of the OPEB liability was based on the Campus' long-term share of contributions to the postemployment benefits plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the Campus' proportionate share of the SCRHITF plan was 0.398552%.

OPEB Expense – For the year ended June 30, 2022, the Campus recognized OPEB expense of \$6,684,807 for SCRHITF.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Post-Employment Benefits Other Than Pensions (OPEB) – At June 30, 2022, the Campus reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

South Carolina Retiree Health Insurance Trust Fund

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,702,935	\$ 2,152,398
Changes of assumptions	17,108,128	2,021,995
Net difference between projected and actual earnings on OPEB plan investments	-	22,707
Changes in proportion and differences between Campus contributions and proportionate share of contributions	514,925	2,743,706
Campus contributions subsequent to the measurement date	2,461,237	-
Total	<u>\$ 21,787,225</u>	<u>\$ 6,940,806</u>

The \$2,461,237 reported as deferred outflows of resources related to OPEB resulting from Campus contributions subsequent to the measurement date for the SCRHITF plan during the year ended June 30, 2022 will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2023.

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 plan:

Year ended June 30:		
2023	\$	1,907,729
2024		1,870,425
2025		2,517,737
2026		2,577,281
2027		2,343,728
Thereafter		1,168,282
	\$	<u>12,385,182</u>

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

The following table provides a summary of the actuarial assumptions and methods used in the June 30, 2020 actuarial valuation for SCRHITF:

Actuarial Methods and

Assumptions:

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	1.92% as of June 30, 2021
Demographic assumptions	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Mortality assumptions	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience.
Healthcare trend rate	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% 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
Notes	The discount rate changed from 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021. In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were reset to better reflect the plan's anticipated experience.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Discount Rate - The Single Discount Rate of 1.92 percent was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long Term Expected Rate of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	0.60%	0.48%
Cash	20.00%	0.35%	0.07%
Total	100.00%		0.55%
Expected Inflation			2.25%
Total Return			2.80%
Investment Return Assumption			2.75%

For the SCRHITF, the annual money-weighted rate of return on the plan investments was 0.39 percent.

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 1.92 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 (0.92 percent) or 1 percentage point higher (2.92 percent) than the current rate:

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

1% Decrease 0.92%	Current Single Discount Rate Assumption 1.92%	1% Increase 2.92%
\$100,024,928	\$82,991,267	\$69,562,211

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
\$66,581,282	\$82,991,267	\$104,856,881

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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 is not aware of any material disallowances.

The Campus had outstanding commitments of \$1,129,698 for capital and \$6,422,633 for noncapital projects as of June 30, 2022. 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 - LEASES

Lessee Agreements - The Campus leases land, space and equipment from external parties for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2037 and provide for renewal options ranging from one year to ten years. In accordance with GASB Statement No. 87, the Campus records lease assets and lease liabilities based on the present value of expected payments over the term of the leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the Campus' incremental borrowing rate (4.00% - 5.26%). See Note 4 for information on lease assets and the related accumulated depreciation. Future commitments for leases having remaining terms in excess of one year as of June 30, 2022 were as follows:

2023	\$ 1,075,634
2024	1,075,634
2025	1,012,458
2026	940,400
2027	934,742
2028-2032	3,913,215
2033-2037	290,309
Total minimum lease payments	<u>9,242,392</u>
Less: Interest	<u>1,868,941</u>
Present value of minimum lease payments	<u>\$ 7,373,451</u>

In the current fiscal year, the Campus incurred expenses of \$2,182 for office copier contingent rentals on a cost per copy basis.

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, 2022 Balance	Debt Retired in Fiscal Year 2022
State Institution Bonds					
Series 2011A Refunding	\$ 885,000	3.5% to 5%	03/01/22	\$ -	\$ 95,000
Series 2014A	3,450,000	3% to 5%	04/01/34	2,405,000	150,000
Series 2015B Refunding	5,735,000	5%	04/01/26	2,655,000	565,000
Series 2019B Refunding	3,030,000	5%	04/01/29	2,255,000	260,000
Total State Institution Bonds				7,315,000	1,070,000
Revenue Bonds					
Series 2013	10,890,000	3% to 5%	05/01/33	7,210,000	490,000
Series 2016 Refunding	20,910,000	4% to 5%	05/01/39	18,215,000	735,000
Total Revenue Bonds				25,425,000	1,225,000
Subtotal bonds payable				32,740,000	2,295,000
Plus unamortized bond premiums				5,593,780	477,862
Total Bonds Payable				\$ 38,333,780	\$ 2,772,862

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 2022 was \$2,265,960 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 2022 were \$2,467,313 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:

	Principal	Interest	Total
State Institution Bonds			
2023	\$ 1,040,000	\$ 335,963	\$ 1,375,963
2024	1,095,000	283,963	1,378,963
2025	1,160,000	229,212	1,389,212
2026	1,235,000	171,212	1,406,212
2027	530,000	111,313	641,313
2028-2032	1,780,000	243,974	2,023,974
2033-2034	475,000	25,025	500,025
Total	\$ 7,315,000	\$ 1,400,662	\$ 8,715,662

	Principal	Interest	Total
Revenue Bonds			
2023	\$ 1,285,000	\$ 1,188,063	\$ 2,473,063
2024	1,345,000	1,123,813	2,468,813
2025	1,415,000	1,056,563	2,471,563
2026	1,480,000	985,813	2,465,813
2027	1,535,000	920,662	2,455,662
2028-2032	8,900,000	3,422,212	12,322,212
2033-2037	7,625,000	1,377,912	9,002,912
2038-2039	1,840,000	85,800	1,925,800
Total	\$ 25,425,000	\$ 10,160,838	\$ 35,585,838

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	June 30, 2021	GASB 87 Accounting Change	Additions	Reductions	June 30, 2022	Due Within One Year	Long-Term Portion
Bonds Payable:							
State Institution Bonds	\$ 8,385,000	\$ -	\$ -	\$ 1,070,000	\$ 7,315,000	\$ 1,040,000	\$ 6,275,000
Revenue Bonds	26,650,000	-	-	1,225,000	25,425,000	1,285,000	24,140,000
Subtotal Bonds Payable	35,035,000	-	-	2,295,000	32,740,000	2,325,000	30,415,000
Unamortized Bond Premiums	6,071,642	-	-	477,862	5,593,780	472,312	5,121,468
Total Bonds Payable	\$ 41,106,642	\$ -	\$ -	\$ 2,772,862	\$ 38,333,780	\$ 2,797,312	\$ 35,536,468
Lease Obligations	\$ 23,931	\$ 8,396,667	\$ 18,917	\$ 1,066,064	\$ 7,373,451	\$ 741,266	\$ 6,632,185
Accrued Compensated Absences	\$ 1,738,982	\$ -	\$ 1,396,966	\$ 1,497,020	\$ 1,638,928	\$ 1,524,203	\$ 114,725

Additional information regarding bonds payable is included in Note 9.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 11 - COMPONENT UNITS

The University of South Carolina Upstate Foundation (the Foundation) is a separately chartered legal entity whose activities are related to those of the Campus and exists primarily to provide financial assistance and other support to the Campus and its educational programs. The Foundation is considered a nongovernmental component unit because it does not meet the definition of a governmental entity. Because the activities and resources of this entity are significant, provide a direct benefit, and are accessible to the Campus, it is considered a component unit of the Campus and is discretely presented in the Campus' financial statements accordingly as a nongovernmental reporting entity.

The University of South Carolina Upstate Foundation (the Foundation) was established to accept gifts for charitable, benevolent, cultural, and education purposes and to provide student housing and other real property for the exclusive use and benefit of the University of South Carolina Upstate. The University of South Carolina Upstate Capital Development Foundation (CDF), a supporting organization of the Foundation, was established to accept real property donated to the University of South Carolina Upstate, serve as the purchasing agent for property on behalf of Upstate that is integral to the growth of the Campus, and to manage property under leasing agreements to the Campus. The Campus receives funds from the Foundation for scholarships and reimbursement for personnel and student housing services provided by the Campus. The Campus received \$426,300 from the Foundation during fiscal year 2022. As of June 30, 2022, the Foundation held \$12,465,749 in endowment funds for the Campus. Complete financial statements for the Foundation and its supporting organization can be obtained at the University of South Carolina Upstate Foundation, 800 University Way, Spartanburg, SC 29303, Attention: RJ Gimbl.

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 Statement No. 61 – *Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, 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 the Campus of \$95,246 for the fiscal year ended June 30, 2022. The Campus provides accounting services to the Commission at no charge. The Commission owns six duplexes 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 \$335,842 endowment or the operating funds of the Commission. At June 30, 2022, the Commission had a net position of \$322,956.

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

NOTE 13 – RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UNIVERSITY OF SOUTH CAROLINA - Upstate
Notes to the Financial Statements

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	\$ 20,608,398	\$ 8,074,475	\$ 508,936	\$ -	\$ 19,675	\$ -	\$ 29,211,484
Research	1,218,437	420,754	848,761	-	1,131	-	2,489,083
Public service	526,787	193,303	351,850	-	99,737	-	1,171,677
Academic support	2,956,085	1,168,806	6,138,532	-	576	-	10,263,999
Student services	5,649,166	2,211,652	3,551,533	156,689	73,365	-	11,642,405
Institutional support	4,930,935	1,910,590	2,238,155	-	4,669	-	9,084,349
Operation and plant maintenance	3,219,800	1,408,176	3,584,206	1,276,705	-	-	9,488,887
Auxiliary enterprises	761,231	234,537	2,122,095	479,338	1,342	-	3,598,543
Scholarships and fellowships	-	119,554	12,645	-	12,286,625	-	12,418,824
Depreciation	-	-	-	-	-	4,079,055	4,079,055
Pension and OPEB expense	-	3,664,284	-	-	-	-	3,664,284
Total operating expenses	\$ 39,870,839	\$ 19,406,131	\$ 19,356,713	\$ 1,912,732	\$ 12,487,120	\$ 4,079,055	\$ 97,112,590

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

South Carolina Retirement System (SCRS)					
For the Year	Campus' Proportion of the Net Pension Liability	Campus' Proportionate Share of the Net Pension Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.316834%	\$ 75,365,419	\$ 21,836,827	345.13%	60.70%
2021	0.330000%	88,848,325	22,567,011	393.71%	50.70%
2020	0.314854%	80,844,325	20,712,878	390.31%	54.40%
2019	0.322500%	79,012,769	21,234,754	372.09%	54.10%
2018	0.320570%	77,990,505	21,565,300	361.65%	53.30%
2017	0.331640%	71,798,931	21,173,900	339.09%	52.91%
2016	0.340992%	64,670,755	21,450,964	301.48%	56.99%
2015	0.343940%	59,217,099	21,271,140	278.39%	59.90%
2014	0.343940%	61,690,365	20,651,807	298.72%	56.39%

Police Officers Retirement System (PORS)					
For the Year	Campus' Proportion of the Net Pension Liability	Campus' Proportionate Share of the Net Pension Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.049427%	\$ 1,271,706	\$ 745,272	170.64%	70.40%
2021	0.054340%	1,802,035	839,415	214.68%	58.80%
2020	0.054434%	1,560,055	796,282	195.92%	62.70%
2019	0.054010%	1,530,347	754,803	202.75%	61.70%
2018	0.027730%	759,718	777,986	97.65%	60.90%
2017	0.055142%	1,398,671	708,899	197.30%	60.44%
2016	0.055494%	1,209,494	686,692	176.13%	64.57%
2015	0.055920%	1,070,541	674,433	158.73%	67.50%
2014	0.055920%	1,159,199	680,580	170.33%	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

South Carolina Retirement System (SCRS)						
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Portion of Covered Payroll	
2022	\$ 5,925,329	\$ 5,925,329	\$ -	\$ 22,029,398	26.90%	
2021	5,348,190	5,348,190	-	21,836,827	24.49%	
2020	5,473,952	5,473,952	-	22,567,011	24.26%	
2019	4,742,249	4,742,249	-	20,712,878	22.90%	
2018	3,755,242	3,755,242	-	21,234,754	17.68%	
2017	3,738,993	3,738,993	-	21,565,300	17.34%	
2016	3,427,532	3,427,532	-	21,173,900	16.19%	
2015	3,353,440	3,353,440	-	21,450,964	15.63%	
2014	3,309,868	3,309,868	-	21,271,140	15.56%	

Police Officers Retirement System (PORS)						
For the Year	Contractually Required Contribution	Contributions Made to Pension Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Portion of Covered Payroll	
2022	\$ 113,973	\$ 113,973	\$ -	\$ 799,959	14.25%	
2021	99,758	99,758	-	745,272	13.39%	
2020	113,347	113,347	-	839,415	13.50%	
2019	107,282	107,282	-	796,282	13.47%	
2018	121,403	121,403	-	754,803	16.08%	
2017	110,785	110,785	-	777,986	14.24%	
2016	96,591	96,591	-	708,899	13.63%	
2015	91,561	91,561	-	686,692	13.33%	
2014	86,358	86,358	-	674,433	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

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)						
For the Year	Campus' Proportion of the Net OPEB Liability	Campus' Proportionate Share of the Net OPEB Liability	Campus' Covered Payroll During the Measurement Period	Campus' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	
2022	0.398552%	\$ 82,991,267	\$ 38,181,923	217.36%	7.48%	
2021	0.405937%	73,277,413	39,606,592	185.01%	8.39%	
2020	0.414447%	62,670,692	36,696,941	170.78%	8.44%	
2019	0.421020%	59,661,046	35,725,238	167.00%	7.91%	
2018	0.412992%	55,939,134	35,059,572	159.55%	7.60%	
2017	0.412992%	59,754,344	33,669,302	177.47%	7.60%	

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

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

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)						
For the Year	Contractually Required Contribution	Contributions Made to Plan	Contribution Deficiency (Excess)	Campus' Covered Payroll	Contributions as a Percentage of Covered Payroll	
2022	\$ 2,461,237	\$ 2,461,237	\$ -	\$ 38,288,057	6.43%	
2021	2,360,977	2,360,977	-	38,181,923	6.18%	
2020	2,276,355	2,276,355	-	39,606,592	5.75%	
2019	2,212,774	2,212,774	-	36,696,941	6.03%	
2018	1,928,470	1,928,470	-	35,725,238	5.40%	
2017	1,868,675	1,868,675	-	35,059,572	5.33%	

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



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the University of South Carolina- Upstate (the Campus), a campus of the University of South Carolina (the University), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated November 18, 2022.

The financial statements of the USC Upstate Foundation and Supporting Organization, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or reportable noncompliance associated with the discretely presented component unit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Campus' control over financial reporting (internal control) as a basis for designing 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 Campus' internal control. Accordingly, we do not express an opinion on the effectiveness of Campus' internal control.

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

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

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, MD
November 18, 2022