

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2013**

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**

**CONTENTS**

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Non-Governmental Discretely Presented Component Units - Statements of Financial Position	15
Non-Governmental Discretely Presented Component Units - Statements of Activities	16
Notes to the Financial Statements	17
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	38



## Independent Auditor's Report

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

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Upstate (the Campus), a campus of the University of South Carolina (the University), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Campus' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation. These financial statements represent the only discretely presented component units of the Campus. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campus are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the USC Upstate Foundation and the USC Upstate Capital Development Foundation were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

### **Opinion**

As discussed in Note 1, the financial statements of the Campus are intended to present the financial position, and changes in financial position and 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, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campus as of June 30, 2013, 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.

### **Other Matters**

#### *Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2013, on our consideration of the Campus' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Campus' internal control over financial reporting and compliance.

Columbia, South Carolina  
December 2, 2013

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

The University of South Carolina - Upstate (the Campus) is pleased to present its financial statements for the fiscal year 2013. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2013, with comparative information for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2013 and 2012 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campus, the results of operations, and cash flows of the Campus as a whole.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campus' net position (the difference between assets and liabilities) is one indicator of the improvement or erosion of the Campus' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

**STATEMENT OF NET POSITION**

The Statement of Net Position presents the assets, liabilities, and net position of the Campus as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Campus. The Statement of Net Position presents end-of-year data concerning the following:

- Assets - Property that we own and what we are owed by others
- Liabilities - What we owe to others and have collected from others before we have provided the service
- Net Position - The difference between assets and liabilities

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

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the institution. Net position is divided into the following three major categories:

- Net investment in capital assets - Provides the institution's equity in property, plant, and equipment owned by the institution.

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

- Restricted net position -
  - a. Nonexpendable restricted net position consists solely of the Campus' permanent endowment funds and are only available for investment purposes.
  - b. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
  
- Unrestricted net position – Represents resources available to the institution for any lawful purpose of the institution.

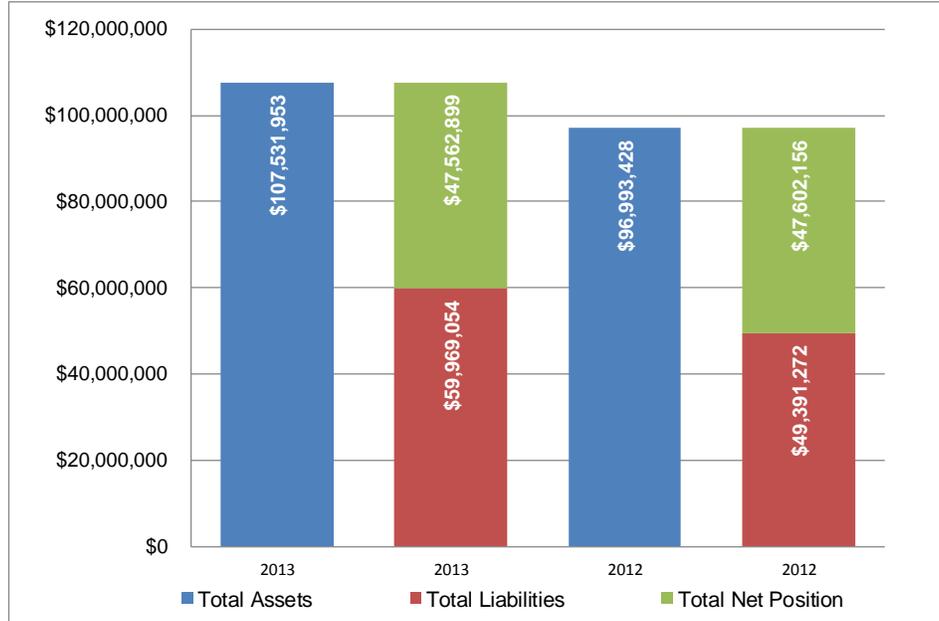
**Summary of Net Position**

<b>Assets</b>	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
Current Assets	\$ 26,585,682	\$ 26,224,028	\$ 361,654	1.38%
Capital Assets, Net	79,812,733	69,622,717	10,190,016	14.64%
Other Noncurrent Assets	1,133,538	1,146,683	(13,145)	-1.15%
Total Assets	<u>107,531,953</u>	<u>96,993,428</u>	<u>10,538,525</u>	<u>10.87%</u>
<b>Liabilities</b>				
Current Liabilities	6,041,332	5,632,870	408,462	7.25%
Noncurrent Liabilities	53,927,722	43,758,402	10,169,320	23.24%
Total Liabilities	<u>59,969,054</u>	<u>49,391,272</u>	<u>10,577,782</u>	<u>21.42%</u>
<b>Net Position</b>				
Net investment in capital assets	25,461,000	25,910,468	(449,468)	-1.73%
Restricted - nonexpendable	165,841	158,605	7,236	4.56%
Restricted - expendable	5,682,256	4,725,003	957,253	20.26%
Unrestricted	16,253,802	16,808,080	(554,278)	-3.30%
<b>Total Net Position</b>	<u>\$ 47,562,899</u>	<u>\$ 47,602,156</u>	<u>\$ (39,257)</u>	<u>-0.08%</u>

- Total assets of the Campus increased by \$10.5 million due to the purchase of a residence hall from a related entity of the USC Upstate Foundation.
- The increase in total liabilities of \$10.6 million is attributable to the increase in long term debt from the issuance of housing revenue bonds to purchase the residence hall facility.
- Net position of the Campus decreased during the year by approximately \$39,300. The net decrease is due to the following:
  - ♦ Net investment in capital assets decreased by approximately \$449,500 due to capital purchases and annual depreciation throughout the year.
  - ♦ Expendable restricted net position increased by approximately \$957,300 due to unspent deferred maintenance appropriations.
  - ♦ Unrestricted net position decreased by approximately \$554,300 due to a reclassification of revenue from prior year, an increase in salaries and fringes, as well as miscellaneous systems upgrades and housing renovations. The Campus also received an additional transfer for Palmetto College which offset the decreases in unrestricted net position.

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

**Assets, Liabilities and Net Position**



**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the Campus, both operating and nonoperating, and the expenses paid by the Campus, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the Campus. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Campus. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues.

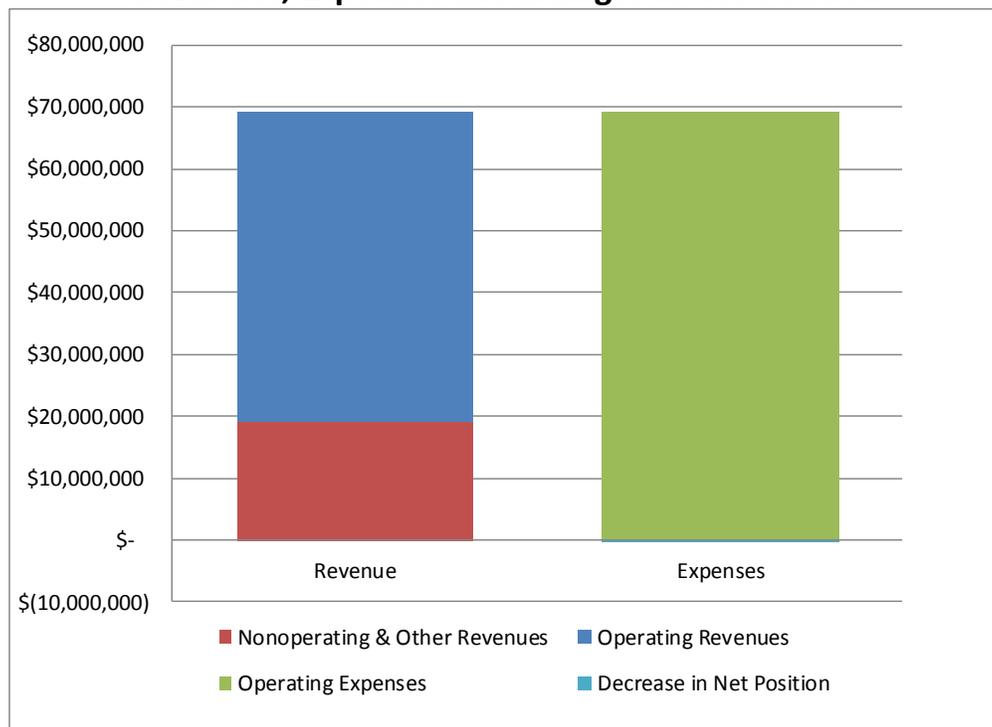
**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Management's Discussion and Analysis**  
**(Unaudited)**

**Summary of Revenues, Expenses and Changes in Net Position**

	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
<b>Operating Revenues:</b>				
Student tuition and fees	\$ 28,471,752	\$ 28,710,315	\$ (238,563)	-0.83%
Federal grants and contracts	1,481,445	2,496,406	(1,014,961)	-40.66%
State grants and contracts	10,278,336	9,341,994	936,342	10.02%
Local grants and contracts	34,710	19,818	14,892	75.14%
Nongovernmental grants and contracts	116,836	203,239	(86,403)	-42.51%
Sales and services of educational and other activities	2,630,272	2,365,412	264,860	11.20%
Sales and services of auxiliary enterprises	5,546,241	5,322,119	224,122	4.21%
Interest collected on student loans	10,314	10,137	177	1.75%
Other fees	221,696	195,028	26,668	13.67%
Other operating revenues	1,051,894	707,981	343,913	48.58%
<b>Total operating revenues</b>	<b>49,843,496</b>	<b>49,372,449</b>	<b>471,047</b>	<b>0.95%</b>
<b>Operating Expenses:</b>				
Salaries and wages	34,148,327	33,339,561	808,766	2.43%
Fringe benefits	10,057,422	9,260,699	796,723	8.60%
Services and supplies	18,065,709	16,959,540	1,106,169	6.52%
Utilities	1,780,155	1,818,797	(38,642)	-2.12%
Scholarships and fellowships	1,656,788	1,490,483	166,305	11.16%
Depreciation expense	3,450,621	3,181,210	269,411	8.47%
<b>Total operating expenses</b>	<b>69,159,022</b>	<b>66,050,290</b>	<b>3,108,732</b>	<b>4.71%</b>
Operating loss	(19,315,526)	(16,677,841)	(2,637,685)	15.82%
Net nonoperating revenues	18,361,256	17,054,073	1,307,183	7.66%
Income (loss) before other revenues & transfers	(954,270)	376,232	(1,330,502)	-353.64%
Other revenues and transfers	915,013	(401,437)	1,316,450	-327.93%
Change in net position	(39,257)	(25,205)	(14,052)	55.75%
<b>Net position at beginning of year</b>	<b>47,602,156</b>	<b>47,627,361</b>	<b>(25,205)</b>	<b>-0.05%</b>
<b>Net position at end of year</b>	<b>\$ 47,562,899</b>	<b>\$ 47,602,156</b>	<b>\$ (39,257)</b>	<b>-0.08%</b>

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

**Revenues, Expenses and Changes in Net Position**



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

- An increase of approximately \$471,000 in total operating revenues is due to the following:
  - ♦ Net approximate \$238,600 decrease in student tuition and fees is primarily due to a 25% summer tuition rate reduction designed to increase enrollment. While there were moderate increases in enrollment, the additional student tuition did not fully offset the rate reduction.
  - ♦ An increase in sales and services of educational and other activities of approximately \$264,900 is due to increases in funding from the Scholars Academy for the dual enrollment program with local high schools and increases in special events revenue from additional camps offered during the summer.
  - ♦ An increase of approximately \$224,100 in sales and services of auxiliary enterprises is due to proceeds received from an insurance reimbursement for smoke damage to the bookstore and increased housing occupancy due to requiring freshman to live on campus.
  - ♦ An approximate increase of \$343,900 in other operating revenue is due to an insurance reimbursement for fire damage in one of the academic buildings and the distribution of Division I NCAA revenue.
- Operating expenses increased \$3.1 million, approximately 4.7%. Salaries, wages and fringe increased \$1.6 million due to the increase in personnel and fringe benefits from additional faculty and staff as well as the 3% state pay package and increases in retirement contribution and employer health insurance. Services and supplies increased \$1.1 million due to miscellaneous repairs and maintenance projects, and systems upgrades during the fiscal year.
- Net nonoperating revenues increased \$1.3 million due to additional state funds for deferred maintenance and technology initiatives.

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

**STATEMENT OF CASH FLOWS**

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

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

During the year, various minor projects were continued or completed on the Campus. In addition, an existing dormitory (Palmetto House) was purchased from a related entity of the USC Upstate Foundation, CPF Properties, LLC.

The Campus indebtedness consists of bonds payable of \$52.5 million and notes payable of \$17,566. During the current year, \$10.9 million in bonds were issued for the purchase of the dormitory.

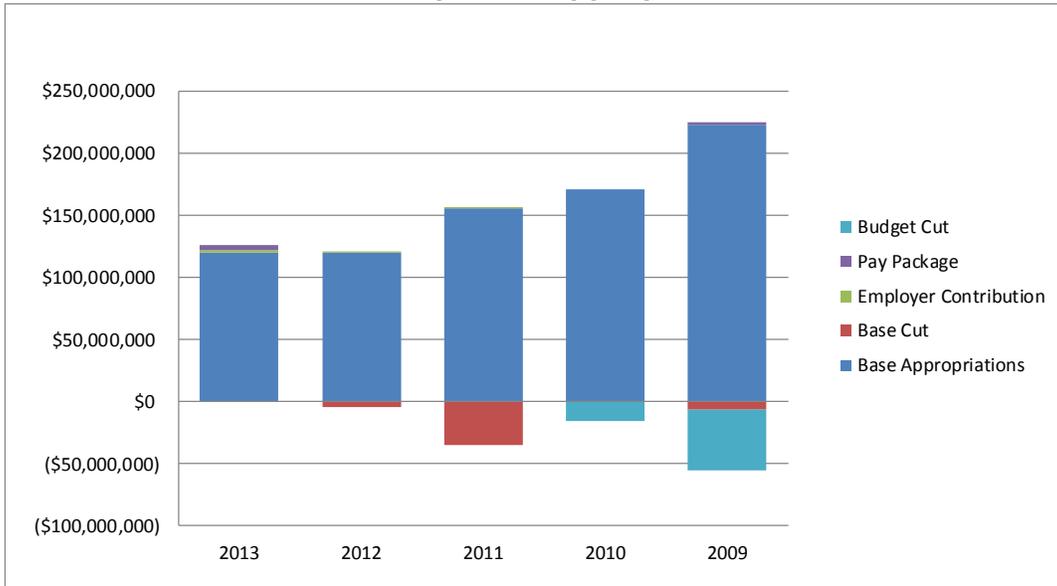
**ECONOMIC OUTLOOK**

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campus' sustained financial performance despite significant reductions in state appropriations from 2008 to 2012. The Campus received additional state funding to begin the 2013 fiscal year to support a portion of state employee pay raises and fringe benefit increases.

The State finished the 2013 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. In addition, because of the surplus revenues, \$68.3 million was available for transfer to the State's contingency reserve fund. The Campus is a beneficiary of the fourth straight year of state surpluses, as non-recurring funds totaling \$355,543 were made available for deferred maintenance projects in 2014. The Campus also received new, recurring state funding to address the parity issue that compares state funding per FTE student with the other comprehensive institutions. The Campus' share of these funds going forward is \$848,200.

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

**University State Appropriations**



**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Statement of Net Position**  
**June 30, 2013**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 18,084,224
Restricted - cash and cash equivalents	6,369,539
Accounts receivable, net	930,285
Capital improvement bonds proceeds receivable	1,042
Inventories	813,995
Prepaid items	<u>386,597</u>
Total current assets	<u>26,585,682</u>
Noncurrent assets:	
Restricted - cash and cash equivalents	150,504
Investments	60,841
Restricted - federal student loans receivable	922,193
Capital assets, net of accumulated depreciation	<u>79,812,733</u>
Total noncurrent assets	<u>80,946,271</u>
Total assets	<u>107,531,953</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	1,324,077
Retainage payable - current portion	24,002
Accrued interest payable	300,844
Accrued payroll and related liabilities	462,673
Accrued compensated absences - current portion	943,730
Capital lease obligations - current portion	97,803
Long-term debt - current portion	2,072,753
Deferred revenues	648,933
Other liabilities	420
Funds held for others	<u>166,097</u>
Total current liabilities	<u>6,041,332</u>
Noncurrent liabilities:	
Accrued compensated absences	906,721
Federal loan liability	839,824
Capital lease obligations	690,281
Long-term debt	<u>51,490,896</u>
Total noncurrent liabilities	<u>53,927,722</u>
Total liabilities	<u>59,969,054</u>

**NET POSITION**

Net investment in capital assets	25,461,000
Restricted for:	
Nonexpendable	165,841
Expendable	
Scholarships, research, instruction, and other	287,788
Loans	125,491
Capital projects	5,141,229
Debt service	127,748
Unrestricted	<u>16,253,802</u>
Total net position	<u>\$ 47,562,899</u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the year ended June 30, 2013**

<b>OPERATING REVENUES</b>	
Student tuition and fees (\$2,629,987 pledged for bonds)	\$ 52,387,735
Less scholarship allowance	(23,915,983)
Federal grants and contracts	1,481,445
State grants and contracts	10,278,336
Local grants and contracts	34,710
Nongovernmental grants and contracts	116,836
Sales and services of educational and other activities	2,630,272
Sales and services of auxiliary enterprises (\$2,168,487 pledged for bonds)	5,773,615
Less scholarship allowance	(227,374)
Interest collected on student loans	10,314
Other fees	221,696
Other operating revenues	<u>1,051,894</u>
Total operating revenues	<u>49,843,496</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	34,148,327
Fringe benefits	10,057,422
Services and supplies	18,065,709
Utilities	1,780,155
Scholarships and fellowships	1,656,788
Depreciation expense	<u>3,450,621</u>
Total operating expenses	<u>69,159,022</u>
Operating loss	<u>(19,315,526)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State appropriations	9,094,220
Federal grants	10,790,580
Gifts	175,702
Investment income	265,330
Endowment income	10,679
Loss on disposal of capital assets	(13,069)
Interest on capital asset related debt	<u>(1,962,186)</u>
Net nonoperating revenues	<u>18,361,256</u>
Loss before other revenues and transfers	(954,270)
State capital appropriations	645,117
Transfers from other campuses, net	<u>269,896</u>
Change in net position	(39,257)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>47,602,156</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 47,562,899</u></u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Statement of Cash Flows**  
**For the year ended June 30, 2013**

<b>OPERATING ACTIVITIES</b>	
Student tuition and fees	\$ 27,790,787
Research grants and contracts	11,984,484
Sales and services of educational and other activities	2,619,313
Sales and services of auxiliary enterprises	5,783,768
Student loans disbursed	(137,472)
Student loans collected	99,710
Interest collected on student loans	10,314
Inflows from federal direct student loans	30,063,808
Outflows from federal direct student loans	(30,081,473)
Payments to employees for services	(33,955,989)
Payments to employees for benefits	(10,047,135)
Payments to suppliers	(19,202,919)
Payments to students for scholarships and fellowships	(1,656,788)
Other receipts	1,271,270
Inflows from agency funds	1,627,256
Outflows from agency funds	<u>(1,388,845)</u>
Net cash used for operating activities	<u>(15,219,911)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	9,094,220
Federal grants	10,790,580
Gifts	175,702
Transfers from other campuses, net	260,326
Federal loan liability	<u>(17,200)</u>
Net cash provided by noncapital financing activities	<u>20,303,628</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	12,353,075
State capital appropriations	645,117
Capital grants and gifts	(568,369)
Purchase and construction of capital assets	(13,643,210)
Principal paid on capital asset related debt	(1,726,628)
Interest paid on capital asset related debt	<u>(1,911,940)</u>
Net cash used for capital and related financing activities	<u>(4,851,955)</u>
<b>INVESTING ACTIVITIES</b>	
Proceeds from note receivable	105,000
Investment income	282,432
Endowment income	<u>3,443</u>
Net cash provided by investing activities	<u>390,875</u>
Net increase in cash and cash equivalents	<u>622,637</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>23,981,630</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 24,604,267</u></b>
<b>Reconciliation of cash and cash equivalents</b>	
Cash and cash equivalents	\$ 18,084,224
Restricted - cash and cash equivalents, current	6,369,539
Restricted - cash and cash equivalents, noncurrent	<u>150,504</u>
	<b><u>\$ 24,604,267</u></b>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Statement of Cash Flows**  
**For the year ended June 30, 2013**

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

Operating loss	\$ (19,315,526)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	3,450,621
Student loans cancelled	24,436
Change in current assets and liabilities	
Accounts receivable, net	107,926
Student loans receivable	(37,762)
Inventories	59,677
Prepaid items	(49,664)
Accounts payable	585,536
Retainage payable - non-capital	22,960
Accrued payroll	45,132
Accrued benefits	10,287
Accrued annual leave and related liabilities	147,206
Deferred revenues	(482,099)
Deposits	(7,067)
Other liabilities	(2,320)
Funds held for others	220,746
Net cash used for operating activities	<u><u>\$ (15,219,911)</u></u>

**NONCASH TRANSACTIONS**

Loss on disposal of capital assets, net	<u><u>\$ (13,069)</u></u>
Transfer of capital assets from other campuses, net	<u><u>\$ 9,570</u></u>
Change in value of investments recognized in endowment income	<u><u>\$ 7,236</u></u>

See accompanying notes to the financial statements which are an integral part of these statements

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Non-Governmental Discretely Presented Component Units**  
**Statements of Financial Position**  
**June 30, 2013**

	<u>USC Upstate Foundation</u>	<u>USC Upstate Capital Development Foundation</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,040,742	\$ 745,046	\$ 2,785,788
Investments	7,873,061	6,917,756	14,790,817
Assets held in trust	499,214	-	499,214
Contributions receivable, net	3,299,392	325,418	3,624,810
Prepaid expenses	-	3,217,734	3,217,734
Fixed assets, net of depreciation	<u>173,681</u>	<u>18,345,601</u>	<u>18,519,282</u>
Total assets	<u><b>\$ 13,886,090</b></u>	<u><b>\$ 29,551,555</b></u>	<u><b>\$ 43,437,645</b></u>
<b>LIABILITIES</b>			
Bonds and notes payable	\$ 3,009,000	\$ 17,315,625	\$ 20,324,625
Other liabilities	<u>378,195</u>	<u>5,362,696</u>	<u>5,740,891</u>
Total liabilities	<u>3,387,195</u>	<u>22,678,321</u>	<u>26,065,516</u>
<b>NET ASSETS</b>			
Unrestricted	2,220,041	6,873,234	9,093,275
Temporarily restricted	2,354,014	-	2,354,014
Permanently restricted	<u>5,924,840</u>	<u>-</u>	<u>5,924,840</u>
Total net assets	<u>10,498,895</u>	<u>6,873,234</u>	<u>17,372,129</u>
Total liabilities and net assets	<u><b>\$ 13,886,090</b></u>	<u><b>\$ 29,551,555</b></u>	<u><b>\$ 43,437,645</b></u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Non-Governmental Discretely Presented Component Units**  
**Statements of Activities**  
**For the year ended June 30, 2013**

	<u>USC Upstate Foundation</u>	<u>USC Upstate Capital Development Foundation</u>	<u>Total</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
Revenues, gains and other support			
Contributions	\$ 248,976	\$ 6,808,423	\$ 7,057,399
Investment returns	763,363	-	763,363
Net realized and unrealized gains	186,130	-	186,130
Earned income	1,239,964	126,598	1,366,562
Gain on disposal of assets	2,278,132	-	2,278,132
Net assets released from restrictions:			
Transfers	(724)	-	(724)
Satisfaction of program restrictions	904,616	-	904,616
Total revenues, gains and other support	<u>5,620,457</u>	<u>6,935,021</u>	<u>12,555,478</u>
Expenses			
Scholarships and student assistance	88,036	-	88,036
Program services	2,956,062	-	2,956,062
Supporting services	3,246,934	-	3,246,934
Contribution to USC Upstate Capital Development Foundation	6,442,225	-	6,442,225
Other expenses	19,373	61,787	81,160
Total expenses	<u>12,752,630</u>	<u>61,787</u>	<u>12,814,417</u>
Excess revenues over (under) expenses	(7,132,173)	6,873,234	(258,939)
Interest rate swap fair value adjustment	1,546,310	-	1,546,310
Change in unrestricted net assets	<u>(5,585,863)</u>	<u>6,873,234</u>	<u>1,287,371</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions	1,418,130	-	1,418,130
Other	125,602	-	125,602
Net assets released from restrictions:			
Transfers	(144,201)	-	(144,201)
Satisfaction of program restrictions	(904,616)	-	(904,616)
Change in temporarily restricted net assets	<u>494,915</u>	<u>-</u>	<u>494,915</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>			
Contributions	2,233,886	-	2,233,886
Net assets released from restrictions:			
Transfers	(105,075)	-	(105,075)
Change in permanently restricted net assets	<u>2,128,811</u>	<u>-</u>	<u>2,128,811</u>
Change in net assets	<u>(2,962,137)</u>	<u>6,873,234</u>	<u>3,911,097</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>13,461,032</u>	<u>-</u>	<u>13,461,032</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 10,498,895</u>	<u>\$ 6,873,234</u>	<u>\$ 17,372,129</u>

See accompanying notes to the financial statements which are an integral part of these statements.

**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 is part of the University of South Carolina (the University) system. As the result of the State of South Carolina's (the State) reevaluation of the University as part of the State's financial reporting entity, the University will be reflected as a discretely presented component unit for fiscal year 2013. As a discretely presented component unit of the State, the University is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The Campus' discretely presented component units are discussed in Note 11.

**Financial Statements** - The financial statement presentation for the Campus meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campus' net position, revenues, expenses and changes in net position and cash flows.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

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

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**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.

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

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

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

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

**Noncurrent Cash** - Noncurrent cash primarily consist 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 rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

The Campus capitalizes, as a component of construction in progress, interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. The Campus had no capitalized interest for fiscal year 2013.

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

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

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

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

**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.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

*Restricted - expendable:* The restricted expendable component of net position includes resources which the Campus is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted:* The unrestricted component of net position represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campus, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campus' policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

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

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

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

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campus; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campus would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Scholarship Allowance**- Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campus, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campus' financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campus has recorded a scholarship discount and allowance.

**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, 2013.

**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, 2013, \$63,506 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

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

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

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

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

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

<b>Statement of Net Position</b>		<b>Notes</b>	
Cash and cash equivalents (current)	\$ 18,084,224	Cash on hand	\$ 139,494
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	24,464,464
Debt service	442,332	Other deposits	309
Scholarship, research, instruction, and other	419,739	Other investments	60,841
Capital projects	<u>5,507,468</u>		
	<u>6,369,539</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	105,000		
Federal student loans	<u>45,504</u>		
	<u>150,504</u>		
Investments (noncurrent)	<u>60,841</u>		
	<u>\$ 24,665,108</u>		<u>\$ 24,665,108</u>

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

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2013, \$342,114 of the \$24,464,464 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

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

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

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

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

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

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

Other investments totaling \$60,841 were collateralized by securities held by the pledging bank's trust department but not in the Campus' name.

The net change in unrealized appreciation of investments for the current fiscal year was \$7,236.

**NOTE 3 - RECEIVABLES**

***Accounts Receivable*** - Accounts receivable consisted of the following:

Student and sponsors	\$	672,952
Auxiliary enterprises		127,340
Federal grants and contracts		258,542
State grants and contracts		260
Non-governmental grants and contracts		29,627
Accrued interest		23,686
		1,112,407
Less allowance for doubtful accounts		(182,122)
Accounts receivable, net	<b>\$</b>	<b>930,285</b>

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 are assigned to the federal agency administering the loan programs.

***Capital Improvement Bonds Proceeds Receivable*** - This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 3 - RECEIVABLES, Continued**

The State has authorized capital improvement bonds, research infrastructure bonds, university infrastructure bonds and capital reserve fund appropriations to fund improvements and expansion of state facilities. The Campus is not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

The Campus has \$696,278 of outstanding capital improvement bond authorization, \$430,551 of outstanding research infrastructure bond authorization, \$59,885 of outstanding university infrastructure bond authorization and \$720,796 of capital reserve fund appropriations. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

**Notes Receivable** - As authorized by the South Carolina Code of Laws, the Campus may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation (the Foundation), a discretely presented component unit of the University. Under the terms of the agreement, the Campus will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

During fiscal year 2013, the Foundation paid off the entire \$105,000 principal balance. Interest payments of \$5,335 were received from the Foundation in fiscal year 2013.

**NOTE 4 - CAPITAL ASSETS**

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land and improvements	\$ 270,000	\$ -	\$ -	\$ 270,000
Construction in progress	721,806	12,517,079	12,322,379	916,506
<b>Total capital assets not being depreciated</b>	<b>991,806</b>	<b>12,517,079</b>	<b>12,322,379</b>	<b>1,186,506</b>
Other capital assets				
Land improvements	2,651,840	-	-	2,651,840
Buildings and improvements	92,355,276	12,354,733	-	104,710,009
Machinery, equipment and other	6,468,961	980,346	892,874	6,556,433
Vehicles	1,066,441	123,927	-	1,190,368
<b>Total capital assets at historical cost</b>	<b>102,542,518</b>	<b>13,459,006</b>	<b>892,874</b>	<b>115,108,650</b>
Less accumulated depreciation for:				
Land improvements	889,990	89,212	-	979,202
Buildings and improvements	27,851,563	2,716,371	-	30,567,934
Machinery, equipment and other	4,403,595	538,173	879,805	4,061,963
Vehicles	766,459	106,865	-	873,324
<b>Total accumulated depreciation</b>	<b>33,911,607</b>	<b>3,450,621</b>	<b>879,805</b>	<b>36,482,423</b>
Other capital assets, net	68,630,911	10,008,385	13,069	78,626,227
<b>Capital assets, net</b>	<b>\$ 69,622,717</b>	<b>\$ 22,525,464</b>	<b>\$ 12,335,448</b>	<b>\$ 79,812,733</b>

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS**

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

***South Carolina Retirement System*** - The majority of employees of the Campus are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). 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. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable 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 qualify for disability annuity benefits provided they have a minimum of eight years of credited service. 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.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campus' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year	Retirement		Incidental Death		
	<u>Ended</u>	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2013		10.450%	\$2,154,000	0.150%	\$31,000
2012		9.385%	\$1,913,000	0.150%	\$31,000
2011		9.240%	\$1,839,000	0.150%	\$30,000

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

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

***Police Officers Retirement System*** - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 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 compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay 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. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Campus' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	\$ 81,000	0.200%	\$ 1,400	0.200%	\$ 1,400
2012	11.385%	\$ 71,000	0.200%	\$ 1,300	0.200%	\$ 1,300
2011	11.130%	\$ 70,000	0.200%	\$ 1,300	0.200%	\$ 1,300

**Optional Retirement Program** - As an alternative to membership to SCRS, newly hired employees of the Campus may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the ORP other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately \$995,000 (excluding the surcharge) from the Campus as employer and approximately \$666,000 from its employees as plan members.

**Funding Policies** - Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Campus' liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Campus recognizes no contingent liability for unfunded costs associated with participation in the plans.

The amounts paid by the Campus for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

For the fiscal year ending June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Campus will be required to recognize a portion of the unfunded pension liability of the cost sharing plans.

**NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

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

***Funding Policies*** - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$1,402,000 and \$1,274,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The Campus recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$18,000 and \$18,000 for the years ended June 30, 2013 and 2012, respectively.

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

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

**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 believes disallowances, if any, would not be material.

The Campus had outstanding commitments under construction contracts of \$123,063 for capital and \$505,965 for noncapital projects. The Campus anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

**NOTE 8 - LEASE OBLIGATIONS**

The future minimum lease payments for noncancelable operating leases are as follows:

***Real Property Operating Leases***

2014	\$	650,001
2015		650,001
2016		650,001
2017		650,000
2018		650,000
2019-2023		3,250,000
2024-2028		3,250,000
2029-2030		<u>1,191,667</u>
Total minimum lease payments	<b>\$</b>	<b><u>10,941,670</u></b>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2014-2030. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$674,001 for fiscal year 2013. In the current fiscal year, the Campus incurred expenses of \$1,807 for office copier contingent rentals on a cost per copy basis.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 8 - LEASE OBLIGATIONS, Continued**

**Capital Leases** - Buildings and land held by the Campus as of June 30, 2013:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 776,892	\$ 234,119	\$ 542,773
Land	270,000	-	270,000

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

2014	\$ 126,598
2015	126,598
2016	126,598
2017	126,598
2018	126,598
2019-2021	270,891
Total minimum lease payments	903,881
Less amount representing interest	(115,797)
Present value of minimum lease payments	<b>\$ 788,084</b>

Capital lease obligations consist of:

Agreement with USC Upstate Foundation for land and building, dated February 2010, payable in monthly principal payments of \$6,500, with a fixed interest rate of 4.11%. This agreement expires in December 2019. \$ 444,263

Agreement with USC Upstate Foundation for land and building, dated August 2011, payable in monthly principal payments of \$4,050, with a fixed interest rate of 3.57%. This agreement expires in August 2020. 343,821

**\$ 788,084**

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE**

**Bonds Payable** - Bonds payable consisted of the following:

	<u>Original Debt</u>	<u>Interest Rates (Outstanding)</u>	<u>Maturity Dates</u>	<u>June 30, 2013 Balance</u>	<u>Debt Retired in Fiscal Year 2013</u>
<b>State Institution Bonds</b>					
Series 2006B	\$ 10,850,000	3.25% to 5.25%	04/01/26	\$ 7,840,000	\$ 445,000
Series 2009B	6,035,000	3.0% to 5.0%	04/01/29	5,055,000	240,000
Series 2011A Refunding	885,000	2.25% to 5.0%	03/01/22	745,000	70,000
<b>Total State Institution Bonds</b>				<b><u>13,640,000</u></b>	<b><u>755,000</u></b>
<b>Revenue Bonds</b>					
Series 2005A Refunding	2,830,000	5.00%	06/01/17	1,250,000	280,000
Series 2009A	28,920,000	3.0% to 5.0%	06/01/39	26,690,000	580,000
Series 2013	10,890,000	3.0% to 5.0%	05/01/33	10,890,000	-
<b>Total Revenue Bonds</b>				<b><u>38,830,000</u></b>	<b><u>860,000</u></b>
Subtotal bonds payable				52,470,000	1,615,000
Plus unamortized bond premium				1,569,913	19,773
Less unamortized bond discounts				(411,970)	(15,845)
Less unamortized loss on bond refunding				(81,860)	(16,965)
<b>Total Bonds Payable</b>				<b><u>\$ 53,546,083</u></b>	<b><u>\$ 1,601,963</u></b>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campus' debt service limit on bonded indebtedness for the preceding year were \$2,650,080 which results in a legal annual debt service at June 30, 2013 of \$2,385,072. The annual debt service payments for the fiscal year were \$1,363,106. Tuition revenue pledged in fiscal year 2013 was \$2,629,987 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 2013 were \$2,168,487 from sales and services of auxiliary enterprises.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

The Campus has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event such required payment has not been made, for a period equal to the final maturity of the bonds. Certain amounts of the bonds payable are callable at the option of the Campus.

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

On May 1, 2013 the Campus issued \$10,890,000 in revenue bonds for the purchase of housing facilities.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>State Institution Bonds</b>			
2014	\$ 780,000	\$ 575,969	\$ 1,355,969
2015	810,000	542,219	1,352,219
2016	835,000	507,006	1,342,006
2017	865,000	466,069	1,331,069
2018	895,000	422,319	1,317,319
2019-2023	4,975,000	1,464,894	6,439,894
2024-2028	4,060,000	495,900	4,555,900
2029	420,000	17,850	437,850
<b>Total</b>	<b><u>\$ 13,640,000</u></b>	<b><u>\$ 4,492,226</u></b>	<b><u>\$ 18,132,226</u></b>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Revenue Bonds</b>			
2014	\$ 1,215,000	\$ 1,757,350	\$ 2,972,350
2015	1,285,000	1,716,600	3,001,600
2016	1,330,000	1,671,950	3,001,950
2017	1,380,000	1,621,900	3,001,900
2018	1,080,000	1,568,263	2,648,263
2019-2023	6,110,000	7,130,438	13,240,438
2024-2028	7,630,000	5,611,525	13,241,525
2029-2033	9,585,000	3,658,550	13,243,550
2034-2038	7,485,000	1,591,750	9,076,750
2039	1,730,000	86,500	1,816,500
<b>Total</b>	<b><u>\$ 38,830,000</u></b>	<b><u>\$ 26,414,826</u></b>	<b><u>\$ 65,244,826</u></b>

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

**Notes Payable** - Notes payable consisted of the following:

Note payable for energy efficiency projects, dated December 2010, payable in a annual installments of \$17,566 at no interest, matures December 2013.

\$ 17,566

The scheduled maturities of the notes payable are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>2014</b>	<u><u>\$ 17,566</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,566</u></u>

**NOTE 10 - LONG-TERM LIABILITIES**

Long-term liability activity was as follows:

	<b>June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2013</b>	<b>Due Within One Year</b>
Bonds Payable:					
State Institution Bonds	\$ 14,395,000	\$ -	\$ 755,000	\$ 13,640,000	\$ 780,000
Revenue Bonds	<u>28,800,000</u>	<u>10,890,000</u>	<u>860,000</u>	<u>38,830,000</u>	<u>1,215,000</u>
Subtotal Bonds Payable	43,195,000	10,890,000	1,615,000	52,470,000	1,995,000
Unamortized Bond Premiums	126,611	1,463,075	19,773	1,569,913	92,997
Unamortized Bond Discounts	(427,815)	-	(15,845)	(411,970)	(15,845)
Unamortized Loss on Bond Refunding	<u>(98,825)</u>	<u>-</u>	<u>(16,965)</u>	<u>(81,860)</u>	<u>(16,965)</u>
Total Bonds Payable	<u>42,794,971</u>	<u>12,353,075</u>	<u>1,601,963</u>	<u>53,546,083</u>	<u>2,055,187</u>
Notes Payable	<u>35,132</u>	<u>-</u>	<u>17,566</u>	<u>17,566</u>	<u>17,566</u>
Total Bonds and Notes Payable	<u><u>\$ 42,830,103</u></u>	<u><u>\$ 12,353,075</u></u>	<u><u>\$ 1,619,529</u></u>	<u><u>\$ 53,563,649</u></u>	<u><u>\$ 2,072,753</u></u>
Capital Lease Obligations	\$ 882,146	\$ -	\$ 94,062	\$ 788,084	\$ 97,803
Accrued Compensated Absences	\$ 1,703,246	\$ 1,039,646	\$ 892,441	\$ 1,850,451	\$ 943,730

Additional information regarding bonds payable is included at Note 9.

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS**

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

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

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

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

The USC Upstate Foundation transferred CPF Properties II, LLC (approximately \$6.4 million) to the USC Upstate Capital Development Foundation, Inc. effective June 30, 2013, however the activity for CPF Properties II, LLC for the current year is reflected in the financial statements for the USC Upstate Foundation.

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

**Funds Received from Component Units:**

USC Upstate Foundation	<u><u>\$ 178,828</u></u>
------------------------	--------------------------

**Funds Paid to Component Units:**

USC Upstate Foundation	\$ 43,201
USC Upstate Capital Development Foundation	<u>84,398</u>
	<u><u>\$ 127,599</u></u>

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 12 - RELATED PARTY**

The Spartanburg County Commission for Higher Education (the Commission) is a separately chartered legal entity which does not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, 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 fifteen 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 to offer standard freshman and sophomore college courses and those other courses considered desirable. 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 to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Upstate (USC Upstate) of \$5,708 for the fiscal year ended June 30, 2013. The Commission controls land owned by the County and provides the land to USC Upstate at no cost. USC Upstate provides accounting and record maintenance services to the Commission at no charge. At June 30, 2013, the Commission had a net position of \$820,000.

**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 risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

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

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

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

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

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

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

**UNIVERSITY OF SOUTH CAROLINA - UPSTATE**  
**Notes to the Financial Statements**

**NOTE 13 - RISK MANAGEMENT, Continued**

**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 never exceeded the Campus' insurance coverage.

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 property insurance policies maintained by the Campus include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, Risk Management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student 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	\$ 18,465,226	\$ 5,375,551	\$ 2,240,791	\$ -	\$ 7,537	\$ -	\$ 26,089,105
Research	39,817	8,207	102,403	-	426	-	150,853
Public service	983,577	287,547	532,698	-	6,077	-	1,809,899
Academic support	2,284,211	674,282	3,298,768	-	691	-	6,257,952
Student services	4,905,321	1,421,032	3,058,447	-	2,783	-	9,387,583
Institutional support	3,806,791	1,105,307	997,856	-	223	-	5,910,177
Operation & plant maintenance	2,896,971	961,102	5,196,815	1,474,938	21	-	10,529,847
Auxiliary enterprises	766,413	185,844	2,637,931	305,217	-	-	3,895,405
Scholarships and fellowships	-	38,550	-	-	1,639,030	-	1,677,580
Depreciation	-	-	-	-	-	3,450,621	3,450,621
Total operating expenses	<u>\$ 34,148,327</u>	<u>\$ 10,057,422</u>	<u>\$ 18,065,709</u>	<u>\$ 1,780,155</u>	<u>\$ 1,656,788</u>	<u>\$ 3,450,621</u>	<u>\$ 69,159,022</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities 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, 2013, and the related notes to the financial statements, which collectively comprise the Campus’ basic financial statements, and have issued our report thereon dated December 2, 2013.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
December 2, 2013