

Spartanburg Community College

Independent Auditors' Report

Financial Statements and Schedules for the Year Ended June 30, 2016



CENTRAL CAMPUS



TYGER RIVER CAMPUS



CHEROKEE COUNTY CAMPUS



SCC DOWNTOWN CAMPUS



UNION COUNTY ADVANCED TECHNOLOGY CENTER

SPARTANBURG COMMUNITY COLLEGE

Table of Contents

June 30, 2016

| | <u>Page Number</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Commission Members, Officers, Key Staff and Areas Served by the College | i |
| Independent Auditors' Report | 1-2 |
| Required Supplementary Information Management's Discussion and Analysis | 3-9 |
| Basic Financial Statements | |
| Statement of Net Position | 10 |
| Statement of Revenues, Expenses and Changes in Net Position | 11 |
| Statement of Cash Flows | 12 |
| Consolidated Statement of Financial Position Spartanburg Community College Foundation | 13 |
| Consolidated Statement of Activities Spartanburg Community College Foundation | 14 |
| Notes to Financial Statements | 15-54 |
| Required Supplementary Information Schedule of Proportionate Share of the Net Pension Liability SC Retirement System and Police Officer's Retirement System | 55 |
| Required Supplementary Information Schedule of College Contributions SC Retirement System and Police Officer's Retirement System | 56 |

SPARTANBURG COMMUNITY COLLEGE

Commission Members, Officers, Key Staff, and Areas Served by the College
Audit Period July 1, 2015 – June 30, 2016

AREA COMMISSION

| | <u>School District Represented</u> | <u>Term Expires</u> | <u>Office Held</u> |
|------------------------------------|----------------------------------------|-------------------------|--------------------|
| Ms. Tracey G. Hill | School District 1 | 04/27/17 | |
| Mr. Eugene S. (Sonny) Anderson | School District 2 | 05/23/19 | |
| Mr. Tracy W. Keller | School District 3 | 04/27/20 | Secretary |
| Mr. F. Gary Towery | School District 4 | 04/27/17 | |
| Mr. William Bruce Johnson | School District 5 | 04/27/20 | |
| Mr. William G. Sarratt | School District 6 | 04/27/17 | Vice Chairman |
| Mr. Anthony D. Bell | School District 7 | 04/27/20 | |
| Mr. James M. Folk | School District 6 | 11/15/17 | (Member-at-Large) |
| Ms. Kimberly A. Fowler | School District 1 | 05/23/19 | |
| Mr. Gregory M. Tate | Cherokee County | 05/23/19 | Chairman |
| Mr. Stanley O. Vanderford | Union County | 11/15/17 | |
| Dr. C. Scott Turner | Spartanburg | Ex-Officio | |
| Mr. J. Whitner (Whit) Kennedy, Jr. | Spartanburg | Ex-Officio | |

OFFICERS AND KEY ADMINISTRATIVE STAFF

| | |
|----------------------------|--------------------------------------------------|
| Mr. Henry C. Giles, Jr. | President |
| Mr. L. Ray Switzer | Vice President of Business Affairs |
| Mr. Ronald Jackson | Vice President of Student Affairs |
| Dr. Cheryl A. Cox | Senior Vice President of Academic Affairs |
| Mr. P. Michael Forrester | Director of Economic Development |
| Mr. Samuel S. Hook | Executive Director of Advancement and Foundation |
| Mrs. Geraldine S. Mahaffey | Administrative Coordinator to the President |
| Ms. Betty A. Hall | Administrative Assistant to the President |

AREA SERVED BY COLLEGE

Spartanburg, Cherokee, and Union Counties

Independent Auditors' Report

The Commission Members
Spartanburg Community College
Spartanburg, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (Spartanburg Community College Foundation) of Spartanburg Community College, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. The financial statements of the Spartanburg Community College Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Spartanburg Community College as of June 30, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

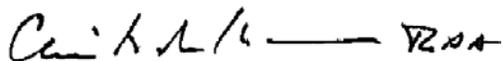
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) net pension liability, and the schedule of College contributions to the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 September 16, 2016, on our consideration of Spartanburg Community College's 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 College's internal control over financial reporting and compliance.



Gaffney, SC
September 16, 2016



Management's Discussion and Analysis

As management of Spartanburg Community College, we offer readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2016, with comparative data for fiscal year ended June 30, 2015. The emphasis of discussion about these statements will be on current year data.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34, No. 35, No. 39 and No. 40 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective. The GASB statement presentation focuses on the financial condition of the College as a whole.

The State of South Carolina implemented GASB Statements No. 61 and No. 63 for the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit in the State of South Carolina Comprehensive Annual Financial Report. In addition, the Statement of Net Assets has been replaced by the Statement of Net Position.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statement No. 25 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2013. This statement affects the reporting requirements for pension plans that administer benefits. The South Carolina Public Employee Benefit Authority (PEBA) implemented the changes required by this standard in the South Carolina Retirement Systems' financial statements issued for the fiscal year ended June 30, 2014. This statement has no direct impact on the reporting requirements of employers participating in the plans, including the financial statements of the College.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaced the requirements of Statement No. 27, and is effective for fiscal periods beginning after June 15, 2014. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Spartanburg Community College implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets decreased by \$27,841,642 for fiscal year ended June 30, 2015. If GASB No. 68 was not implemented total net assets would have increased by \$4,069,006 for fiscal year ended June 30, 2015. As a result of GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets increased by \$2,287,037 for fiscal year ended June 30, 2016. If GASB No. 68 was not implemented total net assets would have increased by \$2,519,620 for fiscal year ended June 30, 2016.

Overview of the Financial Statements

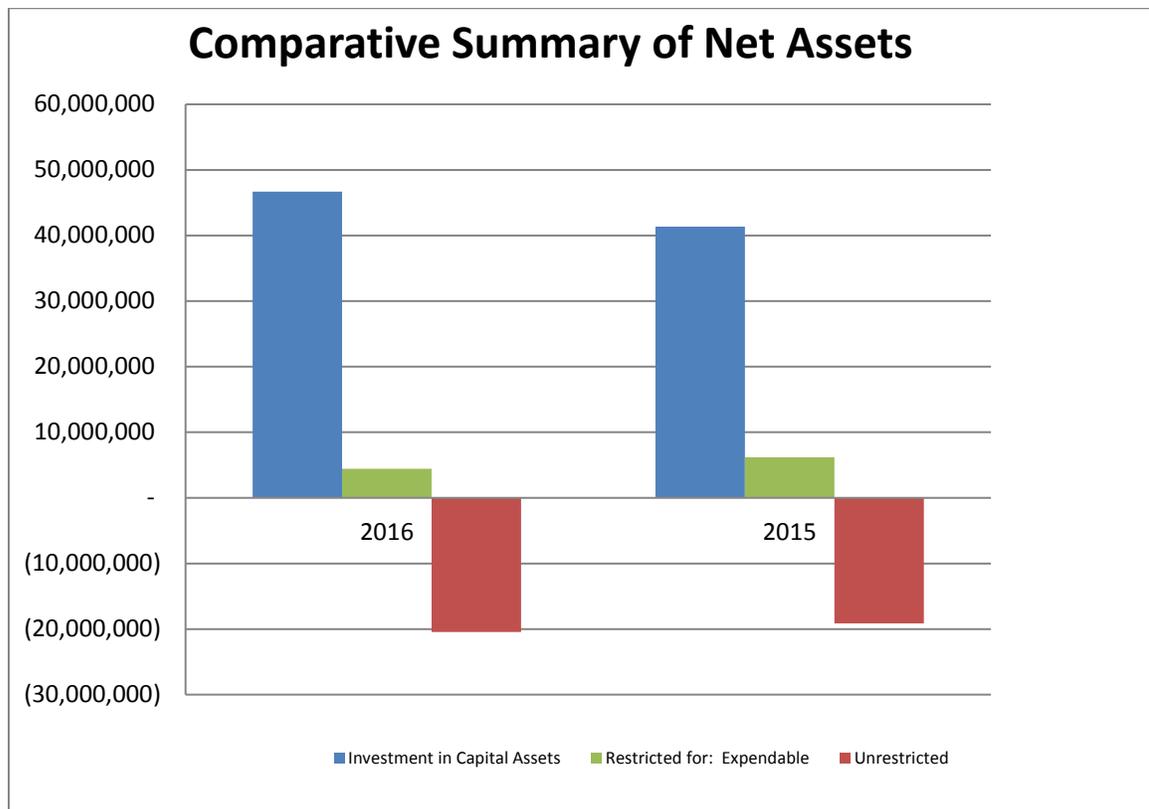
The College is engaged only in Business-type Activities (BTA) that are financed in part by fees charged to students for educational services. Accordingly, its activities are reported using the three financial statements required for proprietary funds: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The Statement of Net Position presents the financial position of the College at the end of the fiscal year and classifies assets and liabilities into current and non-current. The difference between total assets and total liabilities is net assets, which are displayed in three broad categories: invested in capital assets (net of related debt), restricted and unrestricted. Net assets are one indicator of the current financial position of the College, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

- The assets of Spartanburg Community College exceeded its liabilities at June 30, 2016, by \$30,624,564 (net position). Due to the implementation of GASB 68, unrestricted net assets are (\$20,466,234). If GASB 68 was not implemented, total net assets would have increased by \$2,519,620 to \$62,767,794, and unrestricted net assets would have been \$11,676,996, which could be used to meet the College's ongoing obligations.
- Total assets of the College increased by \$2,666,296. Capital assets increased by \$6,801,986 (before accumulated depreciation) due to construction in progress of a new instructional facility at the Cherokee County Campus, and the College purchasing land and other machinery and equipment. Total Current Assets decreased by \$2,559,233, primarily due to a decrease in cash and cash equivalents, which was offset by an increase in receivables by \$2,081,246 at year-end from the State and Spartanburg County.
- Total liabilities increased by \$1,759,141, mainly due to recording the College's Net Pension Liability under GASB 68.
- Deferred Outflows and Inflows of Resources were recorded in accordance with GASB 68 to show the College's share of the expected and actual experience and the net difference between the projected and actual investment earnings.

**Condensed Statement of Net Position
As of June 30, 2016 and 2015**

| | 2016 | 2015 | Increase (Decrease) |
|-----------------------------------------|----------------------|----------------------|------------------------|
| Assets | | | |
| Current Assets | \$ 20,652,755 | \$ 23,211,988 | \$ (2,559,233) |
| Capital Assets (net of depreciation) | 48,292,125 | 43,066,596 | 5,225,529 |
| Other | - | - | - |
| Total Assets | 68,944,880 | 66,278,584 | 2,666,296 |
| Deferred Outflows of Resources | 4,576,809 | 2,714,163 | 1,862,646 |
| Liabilities | | | |
| Current Liabilities | 3,202,974 | 3,025,889 | 177,085 |
| Noncurrent Liabilities | 36,517,284 | 34,935,228 | 1,582,056 |
| Total Liabilities | 39,720,258 | 37,961,117 | 1,759,141 |
| Deferred Inflows of Resources | 3,176,857 | 2,694,104 | 482,753 |
| Net Position | | | |
| Invested in Capital Assets, Net of Debt | 46,683,842 | 41,331,549 | 5,352,293 |
| Restricted - Capital Projects | 4,424,753 | 6,181,197 | (1,756,444) |
| Restricted - Debt Service | (17,797) | (19,200) | 1,403 |
| Loans | - | - | - |
| Unrestricted | (20,466,234) | (19,156,020) | (1,310,214) |
| Total Net Position | \$ 30,624,564 | \$ 28,337,526 | \$ 2,287,038 |



The unrestricted net assets are negative in FY 2015-16 and FY 2014-15 due to the implementation of GASB 68 and recording the Net Pension Liability and deferred outflows and inflows of resources.

The Statement of Revenues, Expenses, and Changes in Net Position is basically a statement of net income that replaces the fund perspective with the entity-wide perspective. Revenues and expenses are categorized by operating and non-operating. Expenses are reported by object type.

GASB requires state appropriations and gifts to be classified as non-operating revenues. (Pell grants are classified as non-operating revenue – grants and contracts.) This requirement results in an operating deficit for the College.

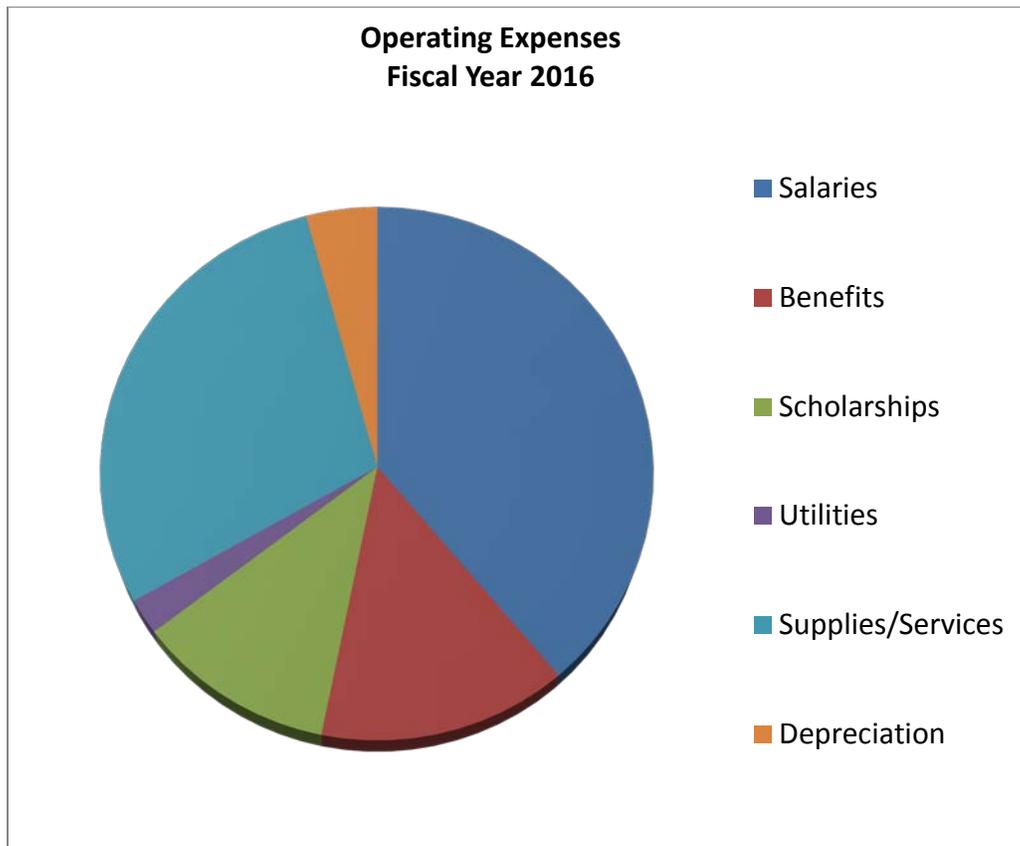
- Total net position increased by \$2,287,039 during fiscal year 2016. State regular and Federal grants and contracts appropriations increased during the fiscal year. Local appropriations also increased. Although State capital grants decreased by \$250,000, the College received State capital grants of \$1,906,816.
- Total operating revenues decreased by \$2,068,039 during the year, primarily due to reduced enrollment.

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 institution.

- Salaries decreased \$364,271. During the year, part-time salaries were underspent due to a decrease in enrollment, in addition some employees retired and there were other vacancies during the year. The college provided a 3% salary performance increase, that went in effect on October 1, 2015 for full-time employees and January 1, 2016 for adjunct faculty.
- Benefits increased by \$304,352 due to the increasing cost of benefits such as retirement and insurance and the allocation of the net pension expense.
- Supplies and services increased by \$1,258,867. On January 12, 2015, the College received a Final Audit Determination from the U.S. Department of Education concerning SCC's administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965 during the 2013-14 award year. The Final Audit Determination contained one finding alleging that SCC awarded ineligible disbursements of financial aid to students for courses not included in the students' programs of study. SCC filed a Request for Review appealing this Audit Determination. In October 2015, SCC and the U.S. Department of Education concluded this matter in a settlement of \$1.36 million, subsequently SCC submitted payment on October 26, 2015. This amount is reflected in the supplies and services expense.
- The transfer from the current fund to the plant fund at fiscal year-end, as authorized by the Commission, decreased from \$1,000,000 in fiscal year 2015, to \$590,000 in fiscal year 2016, a decrease of \$410,000.
- Scholarships decreased \$454,556. This is primarily due to a decrease in enrollment. In fiscal year 2016, the amount received from Pell and Federal Direct Loans continued to decrease.

**Condensed Summary of Operating Expenses
For the Years Ended June 30, 2016 and 2015**

| | 2016 | 2015 | Increase (Decrease) |
|-------------------|---------------------|---------------------|------------------------|
| Salaries | \$19,042,843 | \$19,407,114 | \$(364,271) |
| Benefits | 6,969,066 | 6,664,714 | 304,352 |
| Scholarships | 5,583,786 | 6,038,342 | (454,556) |
| Utilities | 1,051,904 | 1,031,489 | 20,415 |
| Supplies/Services | 14,200,170 | 12,941,303 | 1,258,867 |
| Depreciation | 2,081,194 | 1,834,773 | 246,421 |
| Total | \$48,928,963 | \$47,917,735 | \$1,011,228 |



The Statement of Cash Flows will aid readers in identifying the sources and uses of cash by the major categories of operating, capital and related financing, non-capital financing, and investing activities. This statement also emphasizes the College's dependence on State and County appropriations by separating them from operating cash flows.

- The decrease in cash flows of \$4,583,517 as compared to a \$514,503 decrease in fiscal year 2015 was primarily due to an increase in supplies and services expenses by \$1,258,867 primarily due to a fine paid to the Department of Education for \$1.36 million due to the following. On January 12, 2015, the College received a Final Audit Determination from the U.S. Department of Education concerning SCC's administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965 during the 2013-14 award year. The Final Audit Determination contained one finding alleging that SCC awarded ineligible disbursements of financial aid to students for courses not included in the students' programs of study. SCC filed a Request for Review appealing this Audit Determination. In October 2015, SCC and the U.S. Department of Education concluded this matter in a settlement of \$1.36 million, subsequently SCC submitted payment on October 26, 2015.
- One construction project in process at the end of fiscal year 2015 was completed and capitalized in fiscal year 2016.
- A tuition increase of \$64 per semester for in-county residents was effective in the Fall 2015 term to partially offset the decline in state funding over time.

**Condensed Summary of Cash Flows
For the Years Ended June 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> | <u>Difference</u> |
|---------------------------------------------|----------------------|----------------------|-----------------------|
| Operating Activities | \$(27,561,987) | \$(24,190,325) | \$(3,371,662) |
| Non-Capital Financing Activities | 23,743,370 | 25,053,547 | (1,310,177) |
| Capital and Related Financing Activities | (766,893) | (1,379,777) | 612,884 |
| Investing Activities | 1,993 | 2,052 | (59) |
| Net (Decrease) in Cash | <u>(4,583,517)</u> | <u>(514,503)</u> | <u>(4,069,014)</u> |
| Cash & Cash Equivalents - Beginning of Year | <u>19,216,026</u> | <u>19,730,529</u> | <u>(514,503)</u> |
| | | | |
| Cash & Cash Equivalents - End of Year | <u>\$ 14,632,509</u> | <u>\$ 19,216,026</u> | <u>\$ (4,583,517)</u> |

Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. In the case of the College, assets exceeded liabilities by \$30,624,564 at the close of the fiscal year. Due to the implementation of GASB 68, unrestricted net assets are (\$20,466,234). If GASB 68 was not implemented, total net assets would have increased by \$2,519,620 to \$62,767,794, and unrestricted net assets would have been \$11,676,996, which could be used to meet the College's ongoing obligations.

By far the largest portion of the College's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). The College uses these capital assets to provide services to students, consequently, these assets are not available for future spending. During fiscal year 2013, the College paid off all four of its' capital bonds. The College currently has no outstanding bond debt.

Cash decreased by \$4,583,517. Overall cash provided from non-capital financing activities included state and local appropriations, grants and gifts, and other income of approximately \$28 million was used to fund operating activities.

The College is party to a 20 year capital lease with the Spartanburg Community College Foundation for the lease of the Business Training Center on the Cherokee Campus. Lease payments in the amount of \$199,000 were made this fiscal year.

The Evans Building project was transferred to the Spartanburg Community College Foundation-Downtown Campus, LLC during fiscal year 2013. On November 1, 2012, the Spartanburg County Commission for Technical and Community Education entered into a Facility Lease agreement with the Spartanburg Community College Foundation-Downtown Campus, LLC. The initial term of the lease is 20 years beginning on the first day of the calendar quarter after delivery of the certificate of occupancy by the State of South Carolina Office of State Engineer. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred \$825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. During the current year, the College paid a total of \$859,120 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease. The Evans Building was completed and was being used starting in the Fall 2013 semester.

On June 17, 2013, Spartanburg Community College entered into a Sub-lease agreement with Spartanburg County School District No. 7, commencing on July 1, 2013, and terminating on June 30, 2018, for a total of five years. The College received \$83,863.78 in lease payments along with a deposit of \$6,988.65 from Spartanburg County School District No. 7 as security of the full and faithful performance of every provision of the Sublease.

On February 8, 2013, Spartanburg Community College entered into a Sub-lease agreement with SC Works commencing on October 1, 2013, and terminating June 30, 2016, for a total of two years and eight months. SC Works paid Spartanburg Community College \$131,000 in lease payments during fiscal year 2016, based on the amendment on June 16, 2015 of the third term of the sublease, July 1, 2015 – June 30, 2016. A security deposit of \$12,008.33 was also received by the College as security of the full and faithful performance of every provision of the Sublease.

Economic Factors

This past year, the State appropriation to the State Board for Technical & Comprehensive Education continued to stabilize and increase slightly by \$2,808,000 (2.80 percent). As a result, the college received \$171,000 more in state support, which was a 2.81 percent increase. In addition, the college received \$1,000,000 in one-time capital funds to put towards renovations and equipment. Capital appropriations of \$906,816 were received to support the operations of the Cherokee campus.

Spartanburg Community College experienced a decrease in enrollment headcount of 10.3% for the Fall 2015 term and a decrease of enrollment headcount of 9.3% for the Spring 2016 term. The Summer 2016 headcount was down 10.4%. With the continued improvement experienced in regional employment, the College has projected and budgeted for a 2% decrease in enrollment for 2016-17.

Increased use of our facilities will put demands on our operational costs. Utilities and operational costs are expected to continue to increase. The College has completely finished construction of the new Cherokee Campus building. This building began holding classes starting in the Fall 2015 semester. Staffing optimization at all sites will continue to be a top priority.

SPARTANBURG COMMUNITY COLLEGE

Statement of Net Position

June 30, 2016

ASSETS

CURRENT ASSETS

| | |
|---------------------------|---------------|
| Cash and Cash Equivalents | \$ 14,632,509 |
| Accounts Receivable, Net | 5,214,967 |
| Inventories | 474,022 |
| Other Assets | 331,257 |

Total Current Assets 20,652,755

NONCURRENT ASSETS

| | |
|--------------------------|--------------|
| Capital Assets | 77,956,331 |
| Accumulated Depreciation | (29,664,206) |

Total Noncurrent Assets 48,292,125

Total Assets 68,944,880

DEFERRED OUTFLOWS OF RESOURCES

4,576,809

LIABILITIES

CURRENT LIABILITIES

| | |
|-----------------------------------------|-----------|
| Accounts Payable | 527,384 |
| Compensated Absences | 106,246 |
| Accrued Payroll and Related Liabilities | 733,299 |
| Long-Term Liabilities - Current Portion | 132,195 |
| Unearned Revenue | 1,686,053 |
| Accrued Interest Payable | 17,797 |

Total Current Liabilities 3,202,974

NONCURRENT LIABILITIES

| | |
|--------------------------------------------|------------|
| Long-Term Liabilities - Noncurrent Portion | 1,476,088 |
| Compensated Absences - Payable | 1,498,024 |
| Net Pension Liability | 33,543,172 |

Total Noncurrent Liabilities 36,517,284

Total Liabilities 39,720,258

DEFERRED INFLOWS OF RESOURCES

3,176,867

NET POSITION

Net Investment in Capital Assets 46,683,842

Restricted For:

| | |
|------------------|-----------|
| Capital Projects | 4,424,753 |
| Debt Service | (17,797) |

Unrestricted (20,466,234)

Total Net Position \$ 30,624,564

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

REVENUES

OPERATING REVENUES

| | |
|-----------------------------------------------------------------------|--------------|
| Student Tuition and Fees | \$ 9,861,637 |
| (Net of Scholarship Allowances of \$9,025,374.74) | |
| Student Tuition and Fees Pledged for Capital Projects | 1,432,458 |
| (Net of Scholarship Allowances of \$756,825.22) | |
| Federal Grants and Contracts | 769,177 |
| State Grants and Contracts | 5,524,710 |
| Local Grants and Contracts | 267,308 |
| Sales and Services of Educational Departments | 2,868 |
| Auxiliary Enterprises (Net of Scholarship Allowances of \$976,558.45) | 1,844,412 |
| Other Operating Revenues | 182,914 |
| Total Operating Revenues | 19,885,484 |

EXPENSES

OPERATING EXPENSES

| | |
|--------------------------------------------------------|--------------|
| Salaries | 19,042,843 |
| Benefits | 6,969,066 |
| Scholarships | 5,583,786 |
| Utilities | 1,051,904 |
| Supplies and Other Services (Other Transfers Included) | 14,200,170 |
| Depreciation | 2,081,194 |
| Total Operating Expenses | 48,928,963 |
| Operating Income (Loss) | (29,043,479) |

NONOPERATING REVENUES (EXPENSES)

| | |
|---------------------------------------------------------|-------------|
| State Appropriations | 7,494,918 |
| Local Appropriations | 6,194,829 |
| Investment Income | 1,765 |
| Interest On Capital Asset-Related Debt | (70,834) |
| Federal Grants and Contracts | 10,693,920 |
| Other Non-Operating Revenue | 277,091 |
| Net Non-Operating Revenues | 24,591,689 |
| Income Before Other Revenues, Expenses, Gains or Losses | (4,451,790) |

OTHER

| | |
|------------------------------------|-----------|
| Federal Capital Grants & Contracts | 2,063,750 |
| State Capital Appropriations | 1,906,816 |
| Local Capital | 2,755,665 |
| Gain on Disposal of Capital Assets | 12,598 |
| Total Other | 6,738,829 |
| Increase in Net Position | 2,287,039 |

NET POSITION

| | |
|-----------------------------------------|---------------|
| Net Position - Beginning of Year | 28,337,525 |
| Cumulative Effect of Accounting Changes | - |
| Beginning of Year Restated | 28,337,525 |
| Net Position - End of Year | \$ 30,624,564 |

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE

Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--------------------------------------------------|---------------------|
| Tuition and Fees | \$ 12,127,274 |
| Federal, State and Local Grants and Contracts | 4,653,612 |
| Auxiliary Enterprise Charges | 1,804,728 |
| Payments to Suppliers for Goods and Services | (15,169,954) |
| Payments to Employees | (25,589,485) |
| Payments for Scholarships and Fellowships | (5,583,786) |
| Other Receipts | 195,624 |
| Net Cash Provided (Used) by Operating Activities | <u>(27,561,987)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|------------------------------------------------------------|-------------------|
| State Appropriations | 8,150,481 |
| County Appropriations | 4,935,231 |
| Grants & Gifts Received for Other Than Capital Purposes | 10,380,567 |
| Other Receipts | 277,091 |
| Net Cash Flows Provided by Noncapital Financing Activities | <u>23,743,370</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---------------------------------------------------------------|------------------|
| State Capital Appropriations | 1,906,816 |
| Local Grants and Contracts | 2,755,665 |
| Federal Capital Grants and Contracts | 2,063,750 |
| Purchase of Capital Assets | (7,306,722) |
| Proceeds from Disposal of Capital Assets | 12,598 |
| Principal Paid on Capital Debt | (126,763) |
| Interest Paid on Capital Debt | (72,237) |
| Net Cash Provided by Capital and Related Financing Activities | <u>(766,893)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--------------------------------------------------------|--------------|
| Interest on Investments | 1,993 |
| Net Cash Flows Provided (Used) by Investing Activities | <u>1,993</u> |

| | |
|---------------------------------|----------------------|
| Net Increase (Decrease) in Cash | (4,583,517) |
| Cash - Beginning of Year | 19,216,026 |
| Cash - End of Year | <u>\$ 14,632,509</u> |

Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided (Used) by Operating Activities:

| | |
|-------------------------------------------------------------------------------------------------|------------------------|
| Operating Income (Loss) | \$ (29,043,479) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation Expense | 2,081,193 |
| Change in Assets and Liabilities: | |
| Receivables, Net | (1,164,088) |
| Inventories | 55,019 |
| Allocated net Pension Liability to Benefits Expense | 232,581 |
| Deferred Charges and Prepaid Expenses | 1,943 |
| Accounts Payable and Accrued Expenses | 89,144 |
| Compensated Absences | 125,888 |
| Unearned Revenue | 59,812 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (27,561,987)</u> |

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE FOUNDATION

Consolidated Statement of Financial Position

For the Year Ended June 30, 2016

ASSETS

CURRENT ASSETS

| | | |
|----------------------------------------|----|----------------|
| Cash and Cash Equivalents | \$ | 722,906 |
| Due From Spartanburg Community College | | - |
| Accrued Interest Receivable | | 26,239 |
| | | <u>749,145</u> |

ASSETS RESTRICTED FOR LONG-TERM ASSETS

| | | |
|-------------------------|--|------------------|
| Cash | | 1,187,970 |
| Pledges Receivable, Net | | 229,828 |
| | | <u>1,417,798</u> |

PROPERTY AND EQUIPMENT

| | | |
|--------------------------------|--|-------------------|
| | | 20,041,812 |
| Less: Accumulated Depreciation | | (1,809,566) |
| | | <u>18,232,246</u> |

OTHER ASSETS

| | | |
|---------------------------------------------------|--|------------------|
| Debt Issuance Costs - Unamortized | | 290,960 |
| Investments Held by Spartanburg County Foundation | | 5,664,510 |
| Note Receivable | | 3,070,500 |
| | | <u>9,025,970</u> |

TOTAL ASSETS

\$ 29,425,159

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

| | | |
|-----------------------------------|----|----------------|
| Accrued Interest Payable | \$ | 112,060 |
| Current Portion of Long-Term Debt | | 147,296 |
| | | <u>259,356</u> |

LONG TERM LIABILITIES

| | | |
|----------------|--|-------------------|
| Long-Term Debt | | <u>15,980,689</u> |
|----------------|--|-------------------|

NET POSITION

| | | |
|------------------------|--|-------------------|
| Unrestricted | | 5,641,644 |
| Temporarily Restricted | | 7,543,470 |
| | | <u>13,185,114</u> |

Total Net Position

TOTAL LIABILITIES AND NET POSITION

\$ 29,425,159

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

SPARTANBURG COMMUNITY COLLEGE FOUNDATION

Statement of Activities

For the Year Ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|------------------------------------------------|---------------------|-----------------------------------|-------------------|
| Revenues and Support | | | |
| Grants and Contributions | \$ 51,195 | 281,050 | 332,245 |
| Lease Income | 1,061,175 | - | 1,061,175 |
| Investment Income | | | |
| Investment Interest and Dividends | 193,731 | - | 193,731 |
| Realized Gains (Losses) | 8,564 | - | 8,564 |
| Unrealized Gains (Losses) | (378,486) | - | (378,486) |
| Other Income | 33,451 | - | 33,451 |
| Net Assets Released from Restrictions | <u>635,401</u> | <u>(635,401)</u> | <u>-</u> |
| Total Revenues, Support, and Reclassifications | <u>1,605,031</u> | <u>(354,351)</u> | <u>1,250,680</u> |
| Expenses | | | |
| Program Services | 1,770,039 | - | 1,770,039 |
| Management and General | 120,156 | - | 120,156 |
| Fundraising | <u>3,223</u> | <u>-</u> | <u>3,223</u> |
| Total Expenses | <u>1,893,418</u> | <u>-</u> | <u>1,893,418</u> |
| Net Increase (Decrease) in Net Assets | | | |
| Before Transfers | (288,387) | (354,351) | (642,738) |
| Transfers In | 830,509 | - | 830,509 |
| Transfers Out | <u>(830,509)</u> | <u>-</u> | <u>(830,509)</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Net Assets | (288,387) | (354,351) | (642,738) |
| Net Position at Beginning of Year | <u>5,930,031</u> | <u>7,897,821</u> | <u>13,827,852</u> |
| Net Position at End of Year | <u>\$ 5,641,644</u> | <u>7,543,470</u> | <u>13,185,114</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations: Spartanburg Community College (the “College”), a member institution of the South Carolina Technical College System, provides a range of educational programs to meet the needs of the adult population of Spartanburg, Union, and Cherokee counties. Included in this range of programs are technical and occupational associate degree, diploma and certificate curricula that are consistent with the needs of employers in the College’s service area. As an integral part of this mission, the College provides a program of continuing education designed to satisfy the occupational demands of employers through retraining and upgrading the skills of individual employees. The College also provides a variety of developmental education programs, support services and offerings to assist students in meeting their personal and professional educational objectives as well as the Associate of Arts and Associate of Science degree programs for students wishing to continue their education at a four year college or university.

Spartanburg Community College Foundation, Inc. (the “Foundation”) is a nonprofit organization that was formed June 28, 1983, to benefit and support education at Spartanburg Community College.

B. Reporting Entity: The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB) 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. The State of South Carolina implemented GASB Statement No. 61 beginning for the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit beginning in the 2013 State of South Carolina Comprehensive Annual Financial Report. Accordingly, the financial statements include the accounts of Spartanburg Community College, as a discretely presented component unit, and the accounts of Spartanburg Community College Foundation, its component unit. The College is a component unit of the State of South Carolina. However, based on the nature and significance of the Foundation’s relationship with the State of South Carolina, the Foundation is not a component unit of the State of South Carolina.

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

On January 13, 2012, the Foundation formed the SCC Foundation-Downtown Campus, LLC, a partnership, with the Spartanburg Public Facilities Corporation as a 3% partner to carry out the charitable and educational purposes of the Foundation, to benefit Spartanburg Community College, as a partnership of two non-profit entities, and, more specifically, for the purpose of renovating the Evans building, the new downtown campus project. This renovation project was completed during the fiscal year ended June 30, 2014, and the renovated facility occupied and leased to and managed by the College.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model is FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. However, significant note disclosures to the Foundation's financial statements have been incorporated into the College's notes to the financial statements. (See Note R within this Summary of Significant Accounting Policies.)

Financial statements for the Foundation can be obtained by mailing a request to: Spartanburg Community College Foundation, Post Office Box 4386, Spartanburg, South Carolina 29305.

C. Financial Statements: The financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows that replaces the fund-group perspective previously required.

Beginning in fiscal year 2013, the State required the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, the Statement of Net Assets has been replaced by the Statement of Net Position. The State also implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34*, beginning in the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit in the State of South Carolina Comprehensive Annual Financial Report.

In fiscal year 2014, the College implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statement No. 25 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2013. This statement affects the reporting requirements for pension plans that administer benefits. The South Carolina Public Employee Benefit Authority (PEBA) implemented the changes required by this standard in the South Carolina Retirement Systems' financial statements issued for the fiscal year ended June 30, 2014. This statement has no direct impact on the reporting requirements of employers participating in the plans, including the financial statements of the College.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaced the requirements of Statement No. 27, and is effective for fiscal periods beginning after June 15, 2014. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Spartanburg Community College implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets decreased by \$27,841,642. If GASB No. 68 was not implemented this fiscal year, total net assets would have increased by \$4,069,006 for fiscal year ended June 30, 2015. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets increased by \$2,287,037 for fiscal year ended June 30, 2016. If GASB No. 68 was not implemented total net assets would have increased by \$2,519,620 for fiscal year ended June 30, 2016.

D. Basis of Accounting: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's 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 expenses. All significant intra-institutional transactions have been eliminated.

The College has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

E. Cash and Cash Equivalents: For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

F. Investments: Deposits and investments for the College are governed by the South Carolina Code of Laws, Section 11-9-660, and "Investments of Funds". GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, requires disclosures related to deposit risks, such as custodial credit risk, and investment risks, such as credit risk (including custodial credit risk and concentrations of credit risks) and interest rate risk. The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the fair value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

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

H. Inventories: Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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 College follows capitalization guidelines established by the State of South Carolina. 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, 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 College 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 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. Effective July 1, 2011, the College adopted a monthly depreciation convention for the straight-line method consistent with the policy of the State of South Carolina.

J. 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 tuition for international students, student fee refunds, 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.

K. 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 a component of long-term liabilities in the statement of Net Position and as a component of benefit expenses in the Statement of Revenues, Expenses, and Changes in Net Position.

L. Net Assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's 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 invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist 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.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, 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 College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The College 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 and then to unrestricted resources.

M. Income Taxes: The College is exempt from income taxes under the Internal Revenue Code.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

N. Classification of Revenues: The College 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 College's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the College; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the College 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. Beginning fiscal year 2009-10, the SC Comptroller General's office mandated that Pell grants be reclassified as non-operating revenues from operating revenues. State fiscal stabilization funds are reported as federal non-operating revenues in the financial statements, with a portion reported as federal capital grants, as appropriate.

O. Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The College receives such revenues from programs such as culinary arts luncheons, horticultural plant sales and massage therapy sessions.

P. Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by bookstore services and vending. Revenues of internal service and auxiliary enterprise activities and the related expenditures of college departments have been eliminated.

Q. Capitalized Interest: The College capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects that will be capitalized in the applicable capital asset categories upon completion. The College incurred \$-0- of interest cost during the year ended June 30, 2016.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets as follows:

Permanently Restricted Net Assets: Permanently Restricted Net Assets are subject to donor-imposed stipulations that require them to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets: Temporarily Restricted Net Assets are subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Unrestricted Undesignated Net Assets: Unrestricted Undesignated Net Assets are not subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Unrestricted Designated Net Assets: Unrestricted Designated Net Assets are not subject to donor-imposed restrictions but subject to Foundation Board imposed stipulations.

Revenues are reported as increases in unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions for in-kind gifts from outside sources are not recorded in the Foundation's financial records, but are accounted for and acknowledged separately.

Expenses are reported as decreases in unrestricted undesignated or unrestricted designated net assets as appropriate. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted undesignated or unrestricted designated net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are reported at fair value based upon quoted market prices.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the SCC Foundation – Downtown Campus, LLC, a limited liability partnership, with the Spartanburg Public Facilities Corporation as a 3% partner. The Foundation has controlling interest in the LLC Partnership and all material inter-organizational transactions have been eliminated.

Contributions

Unconditional promises to give, contributions in kind, and other contributions are recorded as received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions in kind are recorded at the fair market value of the contribution at the date of the gift. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the respective net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fundraising and special events. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

Functional Expenses

The cost of providing program activities has been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services provided.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Investments

The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Used by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. (SFAS) 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures regarding the fair value measurements of certain financial instruments. SFAS 157 addresses acceptable valuation techniques and establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- *Level 1 inputs* are unadjusted quoted prices for identical assets and liabilities in active markets to which the reporting entity has access.
- *Level 2 inputs* are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable (for example, interest rates); and inputs that are derived from or corroborated by observable market data.
- *Level 3 inputs* are unobservable and are significant to the fair value measurement.

SFAS 157 expands disclosures about fair value measurements for certain financial assets and liabilities.

The carrying amounts of cash, receivables, accounts payable, and other accrued liabilities approximate fair value because of the short maturity of these financial instruments. The carrying values of the Foundation's funds held by the Spartanburg County Foundation are based on information provided to the Spartanburg County Foundation by external investment managers.

Property, Plant, and Equipment

Property and equipment are stated at historical cost. Acquisitions of property and equipment with useful lives exceeding one year are capitalized. Repairs and maintenance not increasing the values or extending the useful lives of the assets are expensed as incurred. Contributions of property and equipment are recorded at their fair market value at the date of the gift.

Depreciation is provided for using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

| | |
|--------------------------------|-------------|
| Building and Land Improvements | 15-39 Years |
| Equipment | 5 Years |
| Furniture and Fixtures | 7 Years |

Disposals of property and equipment are eliminated from the asset and accumulated depreciation accounts. Gains and losses on dispositions of property and equipment are included in income.

Depreciation expense for the year ended June 30, 2016 was 108,438 for the Foundation and \$393,787 for the Downtown Campus, LLC.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Unamortized Debt Issuance Costs

On the accompanying financial statements debt issuance costs are capitalized and amortized. The unamortized portion of debt issuance costs represent the portion of the issuance costs remaining to be amortized. These costs are amortized over the term of the debt at approximately the interest method.

S. Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and the South Carolina Police Retirement System (PORS) and additions to/deductions from SCRS' and PORS' fiduciary net position have been determined on the same basis as they are reported by the South Carolina Public Employee Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – STATE APPROPRIATIONS

State funds for the South Carolina Technical College System are appropriated to the State Board for Technical and Comprehensive Education (the Board), and the Board allocates funds budgeted for the technical and community colleges in a uniform and equitable manner. Appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the Board receives authorization from the General Assembly to carry the funds over to the next year.

The following is a reconciliation of the state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2016:

Non-Capital Appropriations

| | |
|---------------------------------------------------------------------------|---------------------|
| Appropriations Per State Board Allocation | \$ 6,783,178 |
| Lottery Technology Funds | 179,652 |
| STEM E&G Critical Needs Workforce Allocation | 82,668 |
| STEM Equipment Funding (Lottery Funds) | 9,132 |
| Appropriations from Commission on Higher Education for Academic Endowment | 59,494 |
| Workforce Pathways Scholarships (Lottery Surplus) | 2,002 |
| Stem Health Equipment Special Items | 354,631 |
| Less: Prior Year's Appropriations Recorded As Current Year Revenue | 24,161 |
| Less: Prior Year's Lottery Technology Funds | - |
| Plus: Next Year's Appropriations Recorded As Current Year Revenue | - |
| Total Non-Capital Appropriations Recorded As Current Year Revenue | <u>\$ 7,494,918</u> |

Capital Appropriations

| | |
|---------------------------------------------------------------|---------------------|
| Appropriations for Cherokee Campus | 906,816 |
| Special Items - Lottery (One-Time Appropriation) | 1,000,000 |
| Total Capital Appropriations Recorded As Current Year Revenue | <u>\$ 1,906,816</u> |

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

State Law requires that a bank or savings and loan association receiving State funds must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty transaction fails.

The College's policy concerning custodial credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process (and all in compliance with State laws and regulations). All investments shall be protected by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

The deposits for Spartanburg Community College at June 30, 2016, were \$15,782,771. Of these, \$0 were exposed to custodial credit risk as uninsured and uncollateralized.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Spartanburg Community College does not maintain deposits that are denominated in a currency other than the United States dollar; therefore, the College is not exposed to this risk.

INVESTMENTS

The College is authorized, by the South Carolina Code of Laws, Section 11-9-660, to invest in obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, and collateralized repurchase agreements.

The College had no investments at June 30, 2016.

Custodial Credit Risk

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

The College's policy concerning custodial credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process. All investments shall be protected by FDIC, and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

Custodial Credit Risk, continued

The College's investments at June 30, 2016, were held by the College or in the College's name by the College's custodial banks. The College recognized no losses due to the default by counterparts to investment transactions and amounts recovered from prior period losses.

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations.

The College's policy concerning credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process. All investments shall be protected by FDIC, and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

The College's excess funds were held in an interest bearing checking account, which was fully insured or collateralized at June 30, 2016.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College does not have a policy on concentration of credit risk.

Cash and Investment Reconciliation

The following schedule reconciles cash and investments as reported on the Statement of Net Position to footnote disclosure provided for deposits and investments.

| | |
|--------------------------------------|----------------------|
| STATEMENT OF NET POSITION: | |
| Cash and Cash Equivalents | \$ 14,632,509 |
| Restricted Cash and Cash Equivalents | - |
| Total | <u>\$ 14,632,509</u> |
| DEPOSITS AND INVESTMENTS NOTE: | |
| Cash on Hand | \$ 4,032 |
| Carrying Amounts of Deposits, Net | 14,628,477 |
| Total | <u>\$ 14,632,509</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. It occurs because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities.

The College does not have a policy concerning interest rate risk.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Spartanburg Community College does not maintain investments that are denominated in a currency other than the United States dollar, and therefore, the college is not exposed to this risk.

Deposits and Investments - Component Unit

Spartanburg Community College Foundation

At various times throughout the year, and at year end, the Foundation had deposits at a financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insurable limits.

The deposits and investments for the Spartanburg Community College Foundation, Inc. at June 30, 2016, were as follows:

| | |
|-----------------------------------------------------------|---------------------|
| Cash and Cash Equivalents | \$ 722,906 |
| Cash and Cash Equivalents Restricted for Long-Term Assets | <u>1,187,970</u> |
| | <u>\$ 1,910,876</u> |

Debt covenants provide for certain amounts to be allocated to debt service for the payment of future principal and interest on outstanding obligations. These accounts and the respective balances at June 30, 2016 are shown below:

| | <u>SCC Foundation</u> | <u>SCC Foundation - Downtown Campus, LLC</u> |
|--------------------------------------|---------------------------|----------------------------------------------------------|
| Restricted For: | | |
| Debt Service Principal and Interest | | |
| Fundraising Proceeds Account | \$ 863,049 | - |
| Sub CDE Reserve Account | - | 58,144 |
| Debt Service Reserve Account | - | 166,859 |
| Repair & Replacement Reserve Account | - | 99,918 |
| | <u>\$ 863,049</u> | <u>324,921</u> |

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

FUNDS HELD BY SPARTANBURG COUNTY FOUNDATION

The Spartanburg Community College Foundation has established several funds with the Spartanburg County Foundation. The funds are held, managed, administered, applied, and disbursed under the general powers and duties of the Spartanburg County Foundation.

The funds are carried as assets on the accompanying financial statements, since these funds were established by the Spartanburg Community College Foundation with the Foundation as the beneficiary. The proceeds of these funds are to be used for scholarship assistance for students attending Spartanburg Community College or for the benefit of the College depending on the purpose of the individual funds.

The Foundation has established a temporarily restricted account for BMW scholarships, the funding of which was received from a State of South Carolina Grant for BMW scholar scholarships at Spartanburg Community College, Greenville Technical College and Tri-County Technical College. During the current year this grant resulted in payments to Spartanburg Community College of \$151,645, Greenville Technical College of \$147,445, Tri-County Technical College of \$70,649 to advance technical careers as participants in the BMW Scholars Program managed by the Spartanburg Community College Foundation and disbursed through the Spartanburg County Foundation.

The following is a summary of the activity in the investment funds for the year ended June 30, 2016, as reported by the Spartanburg County Foundation:

| | | |
|-------------------------------------------|----|------------------|
| Balance - July 1, 2015 | \$ | 6,379,352 |
| Contributions | | 35,168 |
| Interest/Dividend Income | | 87,700 |
| Realized Gains/(Losses) | | 8,564 |
| Unrealized Gains/(Losses) | | (378,487) |
| Distributions | | (398,100) |
| Scholarships | | (24,779) |
| Management Fees and Other (Grant Expense) | | (44,908) |
| Balance - June 30, 2016 | \$ | <u>5,664,510</u> |

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables as of June 30, 2016, including applicable allowances, were as follows:

| | | |
|---------------------------------------|----|------------------|
| <u>Receivables:</u> | | |
| Student Accounts | \$ | 987,437 |
| Less: Allowance for Doubtful Accounts | | (913,484) |
| Federal Grants and Other Contracts | | 2,911,177 |
| State Capital Allocation | | - |
| Other | | 788,214 |
| Spartanburg County Capital Allocation | | 1,230,759 |
| State Grants and Contracts | | 208,096 |
| Cherokee County | | 1,405 |
| Union County | | 1,364 |
| Net Accounts Receivable | \$ | <u>5,214,968</u> |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 4 – ACCOUNTS RECEIVABLE, Continued

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2016, the allowance for uncollectible student accounts is valued at \$913,484.

Component Unit – Accounts Receivable

At June 30, 2016, the amount of accounts receivable for the Foundation was \$0.

NOTE 5 –RECEIVABLES - COMPONENT UNIT

PLEDGES RECEIVABLE

Spartanburg Community Foundation

The pledges receivable are unconditional and due over five years. Uncollectible promises are estimated at 50% of the unpaid balance, and are discounted using a net present value calculation and an effective rate of 5.0 percent.

Unconditional promises to give as June 30, 2016 are:

| | | |
|------------------------------------------|----|-----------|
| Receivable in Less than One Year | \$ | 110,000 |
| Receivable in One to Five Years | | 515,000 |
| | | 625,000 |
| Less Allowance for Uncollectible Amounts | | (312,500) |
| Less Discount to Net Present Value | | (82,672) |
| Pledges Receivable (Net) | \$ | 229,828 |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 5 –RECEIVABLES - COMPONENT UNIT, Continued

LOAN RECEIVABLE

Spartanburg Community College Foundation

On December 6, 2012, and simultaneous with a \$9,500,000 loan executed with Wells Fargo Bank, N.A. (the Leverage Loan Note), the SCC Foundation loaned to the SCC Investment Fund, LLC the amount of \$10,495,500 at 1% per annum, to be combined with an advance on New Market Tax Credits to provide funding for the SCC Foundation – Downtown Campus, LLC Evans property renovation project. The note provides for interest only quarterly payments through April, 2020 when quarterly principal and interest payments begin, and go through 2036. In addition, a lump sum payment of \$5,321,500 is due and payable April 1, 2020. The payment schedule is as follows:

| Year | Payment | Principal | Interest | Repayment | Balance |
|------|---------|-----------|----------|-----------|------------|
| 2017 | 104,955 | - | 104,955 | - | 10,495,500 |
| 2018 | 104,955 | - | 104,955 | - | 10,495,500 |
| 2019 | 104,955 | - | 104,955 | - | 10,495,500 |
| 2020 | 222,751 | 144,584 | 78,167 | 5,321,500 | 5,029,416 |
| 2021 | 340,548 | 291,344 | 49,204 | - | 4,738,072 |
| 2022 | 340,548 | 294,268 | 46,280 | - | 4,443,803 |
| 2023 | 340,548 | 297,222 | 43,326 | - | 4,146,581 |
| 2024 | 340,548 | 300,205 | 40,342 | - | 3,846,376 |
| 2025 | 340,548 | 303,219 | 37,329 | - | 3,543,157 |
| 2026 | 340,548 | 306,262 | 34,285 | - | 3,236,895 |
| 2027 | 340,548 | 309,336 | 31,211 | - | 2,927,559 |
| 2028 | 340,548 | 312,441 | 28,106 | - | 2,615,117 |
| 2029 | 340,548 | 315,578 | 24,970 | - | 2,299,540 |
| 2030 | 340,548 | 318,745 | 21,803 | - | 1,980,794 |
| 2031 | 340,548 | 321,945 | 18,603 | - | 1,658,850 |
| 2032 | 340,548 | 325,176 | 15,372 | - | 1,333,674 |
| 2033 | 340,548 | 328,440 | 12,108 | - | 1,005,234 |
| 2034 | 340,548 | 331,737 | 8,811 | - | 673,497 |
| 2035 | 340,548 | 335,067 | 5,481 | - | 338,430 |
| 2036 | 340,548 | 338,430 | 2,118 | - | - |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 6 – CAPITAL ASSETS

The balances of the major classes of property, plant and equipment are listed below:

Spartanburg Community College

| | Beginning Balance, Restated 06/30/15 | Additions | Retirements | Transfers | Ending Balance 06/30/16 |
|-----------------------------------------------------------|-----------------------------------------------|------------------|----------------|------------------|-------------------------------|
| Capital Assets Not Being Depreciated: | | | | | |
| Land and Improvements | \$ 5,116,102 | - | - | - | 5,116,102 |
| Construction in Progress | 2,916,348 | 5,795,468 | - | 6,842,370 | 1,869,446 |
| Works of Art, Historical Treasures, and Similar Assets | 14,644 | - | - | - | 14,644 |
| Total Capital Assets Not Being Depreciated | <u>8,047,094</u> | <u>5,795,468</u> | <u>-</u> | <u>6,842,370</u> | <u>7,000,192</u> |
| Other Capital Assets: | | | | | |
| Buildings and Renovations | 51,905,669 | - | - | 6,842,370 | 58,748,039 |
| Machinery, Equipment, and Other Vehicles | 8,021,955 | 1,511,254 | 504,736 | - | 9,028,473 |
| Depreciable Land Improvements | 688,970 | - | - | - | 688,970 |
| Intangibles Assets | 2,273,513 | - | - | - | 2,273,513 |
| Total Other Capital Assets | <u>63,107,250</u> | <u>1,511,254</u> | <u>504,736</u> | <u>6,842,370</u> | <u>70,956,138</u> |
| Less Accumulated Depreciation For: | | | | | |
| Buildings and Improvements | 18,974,015 | 1,376,666 | - | - | 20,350,681 |
| Machinery, Equipment and Other Vehicles | 6,588,897 | 608,652 | 504,736 | - | 6,692,813 |
| Depreciable Land Improvements | 604,777 | 30,070 | - | - | 634,847 |
| Intangibles | 1,702,917 | 65,805 | - | - | 1,768,722 |
| Total Accumulated Depreciation | <u>28,087,749</u> | <u>2,081,193</u> | <u>504,736</u> | <u>-</u> | <u>29,664,206</u> |
| Other Capital Assets, Net | 35,019,501 | (569,939) | - | 6,842,370 | 41,291,932 |
| Capital Assets, Net | <u>\$ 43,066,595</u> | <u>5,225,529</u> | <u>-</u> | <u>-</u> | <u>48,292,124</u> |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 6 – CAPITAL ASSETS, Continued

Property, Plant, and Equipment – Component Unit

Spartanburg Community College Foundation

The balances of the major classes of property, plant and equipment are listed below:

| | Balance 6/30/2015 | Additions | Deletions | Balance 6/30/2016 |
|-------------------------------|----------------------|------------------|-----------|----------------------|
| Land and Land Improvements | \$ 589,177 | - | - | 589,177 |
| Buildings | 4,091,533 | - | - | 4,091,533 |
| Furniture and Fixtures | 3,187 | - | - | 3,187 |
| Equipment | 223 | - | - | 223 |
| | 4,684,120 | - | - | 4,684,120 |
| Less Accumulated Depreciation | 919,586 | 108,438 | - | 1,028,024 |
| | <u>\$ 3,764,534</u> | <u>(108,438)</u> | <u>-</u> | <u>3,656,096</u> |

Depreciation expense for the year amounted to \$108,438.

SCC Foundation-Downtown Campus, LLC:

| | Balance 6/30/2015 | Additions | Deletions | Transfers | Balance 6/30/2016 |
|--------------------------|----------------------|------------------|-----------|-----------|----------------------|
| Building | \$ 15,357,692 | - | - | - | 15,357,692 |
| Accumulated Depreciation | 387,755 | 393,787 | - | - | 781,542 |
| | <u>\$ 14,969,937</u> | <u>(393,787)</u> | <u>-</u> | <u>-</u> | <u>14,576,150</u> |

Depreciation expense for the year amounted to \$393,787.

NOTE 7 – CONTINGENCIES, LITIGATION, & PROJECT COMMITMENTS

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

The College 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.

On January 12, 2015, the College received a Final Audit Determination from the U.S. Department of Education concerning SCC's administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965 during the 2013-14 award year. The Final Audit Determination contained one finding alleging that SCC awarded ineligible disbursements of financial aid to students for courses not included in the students' programs of study. SCC filed a Request for Review appealing this Audit Determination. In October 2015, SCC and the U.S. Department of Education concluded this matter in a settlement of \$1.36 million, subsequently SCC submitted payment on October 26, 2015.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 7 – CONTINGENCIES, LITIGATION, & PROJECT COMMITMENTS, Continued

Necessary funding has been obtained for the construction, renovation, and equipping of certain facilities, which will be capitalized in the applicable capital asset categories upon completion. At June 30, 2016, the College had remaining commitment balances with certain engineering firms, construction contractors, and vendors related to these projects. One project's contract commitments totaled \$5,129,278 with expenditures of \$2,797,043 in the fiscal year ended June 30, 2016. Another project had contract commitments totaling \$467,832, and expenditures totaling \$67,097, in the fiscal year ended June 30, 2016. There were no current negotiations with any contractors at June 30, 2016.

Other capital projects, which are not to be capitalized when completed, are for replacements, repairs, and/or renovations to existing facilities. There were no remaining commitment balances with any parties related to these projects at June 30, 2016.

The College anticipates funding these projects out of current resources, private gifts, or student fees.

Four buildings, the Health Sciences Building on the main campus, the Academic Building and the Center for Advance Manufacturing and Industrial Technologies (CAMIT) on the Cherokee County campus, and the Center for Business and Entrepreneurial Development (CBED) on the Tyger River campus were partially funded by grants from the Economic Development Administration (EDA). As a condition of the grants, the College entered into a twenty-year mortgage agreement on the properties with the EDA. The mortgage creates a contingent liability that would be imposed in the event that Spartanburg Community College acted in a manner prohibited by the award. According to the agreement, the College may not transfer or convey, including leasing the properties, without the written consent of EDA. The College must maintain insurance coverage and must keep the property in good condition. The possibility of this mortgage resulting in a liability for the College is remote. Therefore, the contingent liability is not reflected in the College's financial statements.

Capital Leases:

The College entered into a 20-year lease agreement with Spartanburg Community College Foundation on September 29, 2005. This agreement is for the lease of the Business Training Center on the Cherokee Campus. The lease began on the first day of the month after the month in which the facility was ready for occupancy. The first payment was due on January 25, 2007.

Spartanburg Community College has the option to purchase all of its rights, title, and interest at any time during the initial term or any extended term of the lease at a price equal to the sum of (a) the 2003 land appraisal of the value of the land per acre, times the acreage of the leased property, (b) the Spartanburg Community College Foundation's un-financed capital expenditures invested in the facility and other improvements on the property, and (c) the aggregate outstanding balance of all loans incurred by the Foundation to construct the building, access roads, and parking.

The cost of the building is \$2,578,561 and the accumulated depreciation is \$580,176 at June 30, 2016.

The capital lease with the Spartanburg Community College Foundation was \$199,000 for the year ended June 30, 2016.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 8 – LEASE OBLIGATIONS

Future minimum payments to be paid:

| <u>Year Ended June 30</u> | <u>Capital Lease with Discretely Presented Component Units</u> |
|--------------------------------------------|------------------------------------------------------------------------|
| 2017 | \$ 199,000 |
| 2018 | 199,000 |
| 2019 | 199,000 |
| 2020 | 199,000 |
| 2021 | 199,000 |
| 2022-2026 | 995,000 |
| Total Minimum Payments | <u>\$ 1,990,000</u> |
| Less: Interest | <u>(453,953)</u> |
| Present Value of Net Minimum Lease Payment | <u><u>\$ 1,536,047</u></u> |

Operating Leases:

On November 1, 2012, the Spartanburg County Commission for Technical and Community Education entered into a Facility Lease agreement with the Spartanburg Community College Foundation-Downtown Campus, LLC. The initial term of the lease is twenty years beginning on the first day of the calendar quarter after delivery of the certificate of occupancy by the State of South Carolina Office of State Engineer. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred \$825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. During the current year, the College paid a total of \$825,760 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease. No portion of the base rent shall be divided into principal and interest components, and this lease does not contain any reference to any portion of any payments being treated as interest.

Future minimum payments to be paid:

| <u>Year Ended June 30</u> | <u>Capital Lease with Discretely Presented Component Units</u> |
|---------------------------|------------------------------------------------------------------------|
| 2017 | \$ 876,304 |
| 2018 | 893,828 |
| 2019 | 911,704 |
| 2020 | 929,940 |
| 2021 | 1,000,000 |
| 2022-2026 | 5,468,412 |
| 2026-2031 | 6,339,384 |
| 2032-2033 | 2,809,992 |
| Total Minimum Payments | <u><u>\$ 19,229,564</u></u> |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 8 – LEASE OBLIGATIONS, Continued

Operating Leases: continued

Future commitments for copier and postage meter operating leases having remaining non-cancelable terms in excess of one year as of June 30, 2016 were as follows:

| <u>Year Ended June 30</u> | <u>Operating Leases with External Parties</u> |
|---------------------------|-------------------------------------------------------|
| 2017 | \$ 46,084 |
| 2018 | 46,084 |
| 2019 | 10,435 |
| Total Minimum Payments | <u>\$ 102,603</u> |

Contingent rentals for copier leases paid on a cost-per-copy basis are as follows:

| <u>Year Ended June 30</u> | <u>Operating Leases With External Parties</u> |
|---------------------------|-------------------------------------------------------|
| 2016 | <u>\$ 67,544</u> |

The College's non-cancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for copier equipment were \$32,895 for fiscal year 2016. The rental payments for the postage meter were \$13,189, and the College paid \$67,544 for cost-per-copy copiers.

Facilities Leased to Others:

On June 17, 2013, Spartanburg Community College entered into a Sub-lease agreement with Spartanburg County School District No. 7, commencing on July 1, 2013, and terminating on June 30, 2018, for a total of five years. Spartanburg County School District No. 7 will pay Spartanburg Community College \$15.34 per square foot leased, which will be paid in one-time installments of \$83,863.78 on or before the 10th day of July each consecutive calendar year of the term beginning on July 1, 2013. The College received \$83,863.78 in lease payments in both FY 2015 and 2016. Spartanburg County School District No. 7 also paid a deposit of \$6,988.65 as security of the full and faithful performance of every provision of the Sublease.

On February 8, 2013, Spartanburg Community College entered into a Sub-lease agreement with SC Works commencing on October 1, 2013, and terminating June 30, 2016, for a total of two years and eight months. For the first term of the sublease, October 1, 2013 – June 30, 2014, SC Works paid Spartanburg Community College \$11.00 per square foot leased (\$108,075 total), which was paid in equal monthly installments of \$12,008.33 on or before the tenth day of each consecutive calendar month of the term. A security deposit of \$12,008.33 was also received by the College as security of the full and faithful performance of every provision of the Sublease.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 8 – LEASE OBLIGATIONS, Continued

Facilities Leased to Others: continued

For the second term of the sublease with SC Works, July 1, 2014 – June 30, 2015, SC Works paid Spartanburg Community College \$12.00 per square foot leased (\$157,200 total), which was paid in equal monthly installments of \$13,100.00 on or before the tenth day of each consecutive calendar month of the term. On June 16, 2015, the third term of the sublease, July 1, 2015 – June 30, 2016, was amended. For the third term, SC Works will pay Spartanburg Community College \$10.00 per square foot leased (\$131,000 total), which will be paid in equal monthly installments of \$10,916.67 on or before the tenth day of each consecutive calendar month of the term.

Facilities Leased to Others – Component Unit

Spartanburg Community College Foundation

The Foundation has entered into a twenty year lease agreement with Spartanburg Community College that expires in 2027. Under this lease agreement the College pays rent to the Foundation for use of the Cherokee County Campus building and equipment in the amount of \$199,000 per year. At June 30, 2016, the net book value of the leased building and equipment was \$2,060,402, including accumulated depreciation of \$751,104 and current year depreciation expense of \$75,617. Pursuant to the terms of the lease, future minimum rental payments are expected to be \$199,000 per year for each of the next 12 years.

The LLC Partnership entered into a facilities lease agreement with the Spartanburg Community College to lease the renovated Downtown Campus facility to the College over a period of 20 years, beginning approximately July 1, 2013, for between \$206,440 and \$356,440 per calendar quarter over the term of the lease. This lease is pledged as collateral for the debt. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred \$825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. This payment is reflected as lease income to the SCC Foundation – Downtown Campus, LLC and as lease expense to the College. During the current year the College paid a total of \$859,120 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease.

Facilities Leased to Others – Component Unit

Spartanburg Community College Foundation

The Foundation has also entered into a twenty year lease agreement with a tenant for 3.45 acres of land located in Cherokee County that expires in 2027. At June 30, 2016, the book value of the leased land was \$103,451. The lease payment is \$1,440 per year. Pursuant to the terms of the lease, future minimum rental payments are expected to be \$1,440 per year for each of the next 12 years. Lease income for the current fiscal year was \$1,440 under this lease.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016 was as follows:

| | June 30, 2015 | Addition | Reductions | June 30, 2016 | Due Within One Year |
|------------------------------|---------------------|----------------|----------------|------------------|------------------------|
| Capital Lease Obligations | \$ 1,735,046 | - | 126,763 | 1,608,283 | 199,000 |
| Accrued Compensated Absences | 1,478,381 | 125,889 | - | 1,604,270 | 106,246 |
| Total Long-Term Liabilities | <u>\$ 3,213,427</u> | <u>125,889</u> | <u>126,763</u> | <u>3,212,553</u> | <u>305,246</u> |

Long-Term Liabilities –Component Unit

Spartanburg Community College Foundation:

During October 2005, the Foundation was issued an Economic Development Bond by the South Carolina Jobs Economic Development Authority to defray the cost of acquiring, by construction and purchase, a Cherokee County Campus for use by Spartanburg Community college. The bond matures October 1, 2025. Interest and principal on the outstanding balance is payable semi-annually. This original bond bore interest at 4.24%, and provided for Semi-annual payments of principal and interest in the amount of \$96,468.54 due April 17 and October 17 of each year.

During the year, and subsequent to the October, 2015 principal and interest payment, the remaining balance of the loan in the amount of \$1,559,283.74 was re-financed at a lower interest rate of 1.86% over the remaining term, thus lowering the annual debt service from \$192,937 to \$171,600, or a total of \$213,362 over the remaining ten years. Semi-annual payments of principal and interest are due October 1 and April 1 of each year.

The long-term debt maturities required in the future and in the aggregate are as follows:

| June 30 | Principal | Interest | Total |
|-----------|---------------------|----------------|------------------|
| 2017 | \$ 144,594 | 27,007 | 171,601 |
| 2018 | 147,296 | 24,305 | 171,601 |
| 2019 | 150,048 | 21,553 | 171,601 |
| 2020 | 152,852 | 18,749 | 171,601 |
| 2021 | 155,708 | 15,893 | 171,601 |
| 2022-2025 | 737,487 | 34,717 | 772,204 |
| | <u>\$ 1,487,985</u> | <u>142,224</u> | <u>1,630,209</u> |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 9 – LONG-TERM LIABILITIES, Continued

Long-Term Liabilities – Component Unit, continued

Spartanburg Community College Foundation:

The Foundation on December 6, 2012, borrowed \$9,500,000 from Wells Fargo Bank, N.A. at 4.64% per annum. The loan is termed “Senior Loan” and is secured by a security interest in the Foundation Fundraising and Donations Account, which receives and holds all donations collections for the Downtown Campus, along with a lien on the Foundation’s Security Interest in the Leverage Loan Note Receivable of \$10,495,500. For the current year the Foundation did not meet the Debt Coverage Ratio requirement of 1.1:1 as provided in the Loan Agreement. However, the donations collected prior to 2016 have a current balance in the bank which will cover the loan payment debt service on a cumulative cash flow basis going forward, therefore ensuring the satisfaction for Wells Fargo to have the confidence in SCCF meeting the loan obligation.

The note provides for quarterly interest payments and annual principal payments as follows:

| Year | Payment | Principal | Interest | Loan Repayment | Balance |
|------|---------------------|------------------|------------------|-------------------|-------------|
| 2017 | \$ 973,157 | 650,000 | 323,157 | - | (6,775,000) |
| 2018 | 797,927 | 500,000 | 297,927 | - | (6,275,000) |
| 2019 | 774,727 | 500,000 | 274,727 | - | (5,775,000) |
| 2020 | 583,096 | 453,500 | 129,596 | 5,321,500 | - |
| | <u>\$ 3,128,907</u> | <u>2,103,500</u> | <u>1,025,407</u> | <u>5,321,500</u> | |

A summary of the outstanding debt at June 30 is as follows:

| | Balance June 30, 2015 | Additions | Retirements | Balance June 30, 2016 |
|---------------------------|--------------------------|-----------|----------------|--------------------------|
| Economic Development Bond | \$ 1,621,399 | - | 133,414 | 1,487,985 |
| Wells Fargo Bank, N.A. | 8,100,000 | - | 675,000 | 7,425,000 |
| Total | <u>\$ 9,721,399</u> | <u>-</u> | <u>808,414</u> | <u>8,912,985</u> |

Interest expense for the year ended June 30, 2016 was \$410,663, none of which was capitalized as project cost during the year.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 9 – LONG-TERM LIABILITIES, Continued

Long-Term Liabilities – Component, continued

SCC Foundation-Downtown Campus, LLC:

The SCC Foundation-Downtown Campus, LLC has issued and executed, on December 6, 2012, four separate notes with a bank and its subsidiaries (Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC, a Delaware limited liability company and NDS New Markets Investments LXXII, LLC, a Delaware limited liability company) in the total amount of \$14,640,000, for the renovation and construction of improvements to the Evans property, which is to be the Spartanburg Community College's downtown campus facility.

The notes mature October 2047, and interest and principal are payable quarterly on the outstanding balance. The notes bear interest at .948 percent per annum. The interest paid for the year ended June 30, 2016 of \$491,796 has been reflected as expense in the Statement of Activities.

The notes provide for the payment of interest only beginning January 5, 2013 until January 5, 2020 when the first normal principal payment is due. In addition, two of the loans provide for a Lump-sum principal payment, totaling \$5,321,500 on April 1, 2020.

The debt maturities for the four separate notes are outlined below:

| June 30 | NDC CDE | | Wells Fargo CDE | | Total | Issuance |
|----------------------------------------|---------------------|------------------|------------------|------------------|----------------------|----------|
| | Loan A | Loan B | Loan A | Loan B | Debt Principal | Costs |
| 2016 | \$ - | - | - | - | \$ - | - |
| 2017 | - | - | - | - | - | - |
| 2018 | - | - | - | - | - | - |
| 2019 | - | 93,708 | - | - | 93,708 | - |
| 2020 | 3,242,428 (1) | 35,883 | 2,161,620 | 28,748 | 5,468,679 | - |
| 2021-2025 | 508,421 | 368,327 | 338,946 | 295,088 | 1,510,782 | - |
| 2026-2030 | 533,070 | 386,184 | 355,380 | 309,394 | 1,584,028 | - |
| 2031-2035 | 558,914 | 404,907 | 372,609 | 324,394 | 1,660,824 | - |
| 2036-2040 | 586,011 | 424,538 | 390,675 | 340,121 | 1,741,345 | - |
| 2041-2045 | 614,425 | 445,120 | 409,616 | 356,613 | 1,825,774 | - |
| 2046-2048 | 254,031 | 184,033 | 169,354 | 147,442 | 754,860 | - |
| | <u>\$ 6,297,300</u> | <u>2,342,700</u> | <u>4,198,200</u> | <u>1,801,800</u> | <u>\$ 14,640,000</u> | <u>-</u> |
| Original Loan Amount | \$ 6,297,300 | 2,342,700 | 4,198,200 | 1,801,800 | \$ 14,640,000 | |
| Quarterly Interest | \$ 14,925 | 5,552 | 9,950 | 4,270 | \$ 34,697 | |
| Annual Interest | \$ 59,698 | 22,209 | 39,799 | 17,081 | \$ 138,787 | |
| (1) Lump-Sum Principal Due 4/1/2020 | \$ 3,192,900 | - | 2,128,600 | - | \$ 5,321,500 | |

These notes are secured by a twenty-year facilities lease for the renovated facilities. See Note 14.

The "B" loans, which represent in essence the new market tax credit portion of the project financing, are to be substantially mitigated, or paid, at the end of the new market tax credit compliance period of approximately 7 years.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 10 – PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

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

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

Plan Description

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

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

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

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE10 – PENSION PLANS, Continued

Membership

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

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

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment provides for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

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

Benefits

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

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

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 10– PENSION PLANS, Continued

Benefits, continued

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

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

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

The benefit formula for full benefits 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 Two 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 Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

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, a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 10 – PENSION PLANS, Continued

Contributions

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

Effective July 1, 2015, employees participating in the SCRS were required to contribute 8.16% of all earnable compensation. The employer contribution rate for SCRS was 16.39%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.91%, 0.15% for the incidental death benefit program and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The College's actual retirement and incidental death benefit program contributions for participating employees and TERI participants to the SCRS for the years ended June 30, 2016, 2015, and 2014 were:

| <u>Fiscal Year Ended</u> | <u>Retirement</u> | | <u>Incidental Death</u> | |
|--------------------------|-------------------|---------------------|-------------------------|---------------------|
| | <u>Rate</u> | <u>Contribution</u> | <u>Rate</u> | <u>Contribution</u> |
| 2016 | 10.910% | \$ 1,676,647 | 0.15% | \$ 23,052 |
| 2015 | 10.750% | \$ 1,651,530 | 0.15% | \$ 23,045 |
| 2014 | 10.450% | \$ 1,657,757 | 0.15% | \$ 23,732 |

Effective July 1, 2015, employees participating in the PORS were required to contribute 8.74% of all earnable compensation. The employer contribution rate for PORS was 19.07%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.34%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2016, 2015, and 2014 were:

| <u>Fiscal Year Ended</u> | <u>Retirement</u> | | <u>Incidental Death</u> | | <u>Accidental Death</u> | |
|--------------------------|-------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | <u>Rate</u> | <u>Contribution</u> | <u>Rate</u> | <u>Contribution</u> | <u>Rate</u> | <u>Contribution</u> |
| 2016 | 13.340% | \$ 5,027 | 0.20% | \$ 75 | 0.20% | \$ 75 |
| 2015 | 13.010% | \$ 5,223 | 0.20% | \$ 80 | 0.20% | \$ 80 |
| 2014 | 12.440% | \$ 5,258 | 0.20% | \$ 85 | 0.20% | \$ 85 |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 10 – PENSION PLANS, Continued

Contributions, continued

Employee and employer contributions to the State ORP are at the same rates as SCRS. Employees participating in the State ORP were required to contribute 8.16% of all earnable compensation. In fiscal year 2016, the employer contribution rate for the State ORP was 11.06% plus the retiree surcharge of 5.33% that will fund retiree health and dental insurance coverage. Of the 11.06% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.91% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2016, total contributions requirements to the ORP were approximately \$121,234 (excluding the surcharge) from the College as employer.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by PEBA's consulting actuary Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

| | <u>SCRS</u> | <u>PORS</u> |
|----------------------------|----------------------------------------|----------------------------------------|
| Actuarial Cost Method | Entry age normal | Entry age normal |
| Investment Rate of Return | 1 7.5% | 7.5% |
| Projected Salary Increases | 3.5% to 12.5% (varies 1 by service) | 4.0% to 10.0% (varies 1 by service) |
| Benefit Adjustments | Lesser of 1% or \$500 annually | Lesser of 1% or \$500 annually |

¹ Includes inflation at 2.75%

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 10 – PENSION PLANS, Continued

Actuarial Assumptions and Methods, continued

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for SCRS and PORS are as follows.

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined by PEBA in accordance with GASB 67 less that System’s fiduciary net position.

The total pension liability is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements located at <http://www.peba.sc.gov/assets/financialsretirement.pdf>. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

A plan’s Net Pension Liability (NPL) is determined by reducing its total pension liability by its fiduciary net position. Total pension liability is defined by the Governmental Accounting Standards Board (GASB) as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GASB 67. Total pension liability may be impacted annually by the cost of service accrued by participants, interest accrued on the liability, the impact of benefit and assumption changes, the cost of benefit payments, and the difference between expected and actual plan experience. The most significant impact on a plan’s fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investments substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 10 – PENSION PLANS, Continued

Investments earned 1.60% during the plan year ended June 30, 2015 and thus the market value of the South Carolina Retirement System (SCRS) and Police Officers' Retirement System's (PORS) investments increased slightly. However, this resulted in negative cash flows because net investment income plus other plan additions (contributions) were not substantial enough to offset plan deductions (benefit payments and administrative costs). Accordingly, SCRS and PORS experienced an overall decrease in plan fiduciary net position for the fiscal year ended June 30, 2015. This change, coupled with the annual increase in the total pension liability, led to a \$1.75 billion and \$265 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2015.

As previously communicated by PEBA, the financial reporting changes required by GASB 68 are likely to result in increased volatility in an employers' reported proportionate share of the NPL from one year to the next. Regardless of the NPL reported on the employer's financial statements, the employer is responsible only for making the contributions required by state law during any given year. Employers cannot pay down or pay off their proportionate share of the NPL because SCRS and PORS are multiple employer, cost-sharing defined benefit plans.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2014. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary.

At June 30, 2016, the College reported liabilities of \$33,472,535 and \$70,637 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability was measured as of June 30, 2015. The College's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the College's SCRS and PORS proportion was 0.176492% and 0.00324%, respectively.

For the year ended June 30, 2016, the College recognized pension expenses of \$2,056,591 and \$5,100 for SCRS and PORS, respectively.

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 10 - PENSION PLANS, Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SCRS</u> | <u>PORS</u> |
|--------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|
| Deferred Outflows of Resources | | |
| Liability Experience | 594,693 | 1,400 |
| Investment Experience | 2,145,171 | 6,157 |
| Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions | - | - |
| College Contributions Subsequent to the Measurement Date | <u>1,824,211</u> | <u>5,177</u> |
| TOTAL | <u>\$ 4,564,075</u> | <u>12,734</u> |
| Deferred Inflows of Resources | | |
| Liability Experience | 59,860 | - |
| Investment Experience | 1,921,326 | 5,384 |
| Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions | <u>1,185,783</u> | <u>4,514</u> |
| TOTAL | <u>\$ 3,166,969</u> | <u>9,898</u> |

The \$1,824,008 and \$5,177 reported as deferred outflows of resources related to pensions resulting from the College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> | <u>SCRS</u> | <u>PORS</u> |
|---------------------------|--------------|-------------|
| 2017 | \$ (231,550) | (969) |
| 2018 | (231,550) | (969) |
| 2019 | (435,818) | (1,031) |
| 2020 | 471,765 | 629 |
| 2021 | - | - |
| Thereafter | - | - |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 10 - PENSION PLANS, Continued

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Expected Arithmetic Real Rate of Return</u> | <u>Long-Term Expected Portfolio Real Rate of Return</u> |
|----------------------------------|--------------------------------|------------------------------------------------|---------------------------------------------------------|
| Short Term | 5.0% | | |
| Cash | 2.0% | 1.90% | 0.04% |
| Short Duration | 3.0% | 2.00% | 0.06% |
| Domestic Fixed Income | 13.0% | | |
| Core Fixed Income | 7.0% | 2.70% | 0.19% |
| Mixed Credit | 6.0% | 3.80% | 0.23% |
| Global Fixed Income | 9.0% | | |
| Global Fixed Income | 3.0% | 2.80% | 0.08% |
| Emerging Markets Debt | 6.0% | 5.10% | 0.31% |
| Global Public Equity | 31.0% | 7.10% | 2.20% |
| Global Tactical Asset Allocation | 10.0% | 4.90% | 0.49% |
| Alternatives | 32.0% | | |
| Hedge Funds (Low Beta) | 8.0% | 4.30% | 0.34% |
| Private Debt | 7.0% | 9.90% | 0.69% |
| Private Equity | 9.0% | 9.90% | 0.89% |
| Real Estate (Broad Market) | 5.0% | 6.00% | 0.30% |
| Commodities | 3.0% | 5.90% | 0.18% |
| Total Expected Real Return | <u>100.0%</u> | | <u>6.00%</u> |
| Inflation for Actuarial Purposes | | | 2.75% |
| Total Expected Nominal Return | | | <u>8.75%</u> |

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 10 - PENSION PLANS, Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the College's proportionate share of the SCRS and PORS net pension liability calculated using the discount rate of 7.50 percent, as well as what the College's respective net pension liability would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

| <u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u> | | | |
|---------------------------------------------------------------------------------|--------------------------------|------------------------------------------|--------------------------------|
| <u>Plan</u> | <u>1% Decrease (6.50%)</u> | <u>Current Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
| SCRS | \$ 42,199,332 | 33,472,535 | 26,158,413 |
| PORS | 96,225 | 70,637 | 47,764 |

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2015 located at <http://www.peba.sc.gov/assets/financialsretirement.pdf> (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2015 located at http://www.peba.sc.gov/assets/06.30.2015-gasb-68_report_final-protected.pdf.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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. Spartanburg Community College 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) 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 RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.00% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. Spartanburg Community College paid approximately \$930,458 and \$879,930 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015. Spartanburg Community College recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$12,180 and \$10,643 for the years ended June 30, 2016 and 2015, 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.

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

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 12 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2016 are summarized as follows:

| | |
|-------------------------------------------|------------------------------|
| Accounts Payable, Student Credit Balances | \$ 336,776 |
| Accounts Payable, Unrestricted | <u>190,608</u> |
| Total Accounts Payable | <u><u>\$ 527,384</u></u> |

NOTE 13 – BONDS AND NOTES PAYABLE

The College did not have any outstanding bonds or notes payable at June 30, 2016.

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS – COMPONENT UNIT

The Spartanburg Community College Foundation’s temporarily restricted net assets as of June 30, 2016 consisted of the following:

| | |
|---------------------------------------------------------|----------------------------|
| Scholarship Funds Held by Spartanburg County Foundation | \$ 754,119 |
| BMW Scholarship Funds | 4,910,391 |
| Other Balances Held for College Support | 240,188 |
| Assets Restricted for Long-Term Assets | 1,417,798 |
| Other Restricted Funds | <u>220,974</u> |
| Total | <u><u>\$ 7,543,470</u></u> |

NOTE 15 – RELATED PARTIES

A certain separately chartered legal entity whose activities are related to those of the College exists primarily to provide financial assistance and other support to the College and its educational program. Financial statements for that entity are prepared by accountants and retained by the Spartanburg Community College Foundation (the “Foundation”).

Management reviewed its relationship with the Foundation under existing guidance of GASB Statement No. 14, as amended by GASB 39. Because of the nature and significance of its relationship with the College, the Foundation is considered a component unit of the College.

Following is a more detailed discussion of the Foundation and a summary of significant transactions between the Foundation and the College for the year ended June 30, 2015.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 15 – RELATED PARTIES, Continued

Related Parties – Component Unit, continued

The Spartanburg Community College Foundation

Due to the purpose of The Foundation, Spartanburg Community College (the college) is a related party. The Foundation seeks funds and resources to further the educational mission of the college. It provides to the college's students, scholarships, while the college provides to the Foundation, the personnel to manage the Foundation's activities. All transactions are conducted at arms-length.

On January 13, 2012, the foundation formed the SCC Foundation-Downtown Campus, LLC, a partnership, with the Spartanburg Public Facilities Corporation as a 3% partner (the LLC Partnership), for the purpose of renovating the Evans building, the new downtown campus project, and to qualify for and obtain new market tax credits amounting to approximately \$5.85 million. These new market tax credits represent 39% of the total project amount of \$15 million. The majority of the tax credits, 77%, will ultimately enhance the project by funding the overall cost and reducing the related debt repayment.

The Evans property had been purchased by Spartanburg Community College in January 2011 and the College maintains ownership. The College entered into a ground lease of this property with and to the LLC Partnership for 55 years at \$1 per year, beginning on November 1, 2012, and ending October 31, 2067.

The LLC Partnership entered into a facilities lease agreement with the Spartanburg Community College to lease the renovated facility to the College over a period of 20 years, beginning approximately July 1, 2013, for between \$206,440 and \$356,440 per calendar quarter over the term of the lease. This lease is pledged as collateral for the debt. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred \$825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership.

On December 6, 2012, the Foundation borrowed \$9,500,000 from Wells Fargo Bank, N.A. at 4.64% per annum which the Foundation then loaned to the SCC Investment Fund, LLC \$10,495,500 at 1.0% per annum. Wells Fargo Community Investment Holdings, LLC then made a capital contribution to the SCC Investment Fund, LLC in the amount of \$4,504,500 which represented 77% of the New Market Tax Credits. These amounts were transferred 40% to the Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC and 60% to the NDC New Markets Investments LXXII, LLC who each in turn made loans to the SCC Foundation – Downtown Campus, LLC, after a sub-allocation fee of \$360,000. These loans totaled \$14,640,000, and are reflected in note 8 to these financial statements.

The SCC originally contracted for the renovation project with a construction contractor and project engineer/supervisor. These contracts were subsequently assigned to the LLC partnership. Up to this point, the College had expended \$1,550,222 in initial payments for the project, and was subsequently reimbursed out of initial loan draws, resulting in this cost and related debt being reflected on the books of the LLC Partnership. Subsequent to these assignments, on December 6, 2012, SCC Foundation-Downtown Campus, LLC, assigned to Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC, a Delaware limited liability company and NDC New Markets Investments LXXII, LLC, a Delaware limited liability company all of its right, title and interest, in and to the architectural agreements and plans and specifications in connection with project and its rights under all construction agreements relating to the acquisition, renovation, development and construction of additional improvements to the property and the project.

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 15 – RELATED PARTIES, Continued

Related Parties – Component Unit, continued

The Spartanburg Community College Foundation

The College recorded non-governmental gifts receipts of \$773,131 from the Foundation in non-operating revenues for the fiscal year ending June 30, 2016. These funds were used to support College programs such as scholarships and to fund equipment and faculty and staff development. The Foundation reimburses the College for any purchases made by the College on behalf of the Foundation. The College provides office space and support services to the Foundation. Additionally, the Foundation paid the College a total of \$10,000 for administrative services during the year.

The College paid the Foundation, LLC Partnership \$859,120 for renovation and construction expenses and to reduce future lease payments, per the agreement outlined above.

As referenced in Note 8, the College also leases a building located in Cherokee County from the Foundation. Lease expense from the College to the Foundation was \$199,000 for the year ended June 30, 2016.

The consolidated Foundation's assets including the SCC Foundation – Downtown Campus, LLC, as of June 30, 2016, were \$29,425,159.

NOTE 16 – RISK MANAGEMENT

The College is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The College and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

SPARTANBURG COMMUNITY COLLEGE
Notes To Financial Statements, Continued
June 30, 2016

NOTE 16 – RISK MANAGEMENT, Continued

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The College is insured through the State's blanket fidelity bond insurance policy for all employees for losses arising from theft or misappropriation.

NOTE 17 – OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2016 are summarized as follows:

| | Compensation | Benefits | Scholarships and Fellowships | Utilities | Supplies and Other Services | Depreciation | Total |
|----------------------------------|----------------------|------------------|------------------------------------|------------------|-----------------------------------|------------------|-------------------|
| Instruction | \$ 9,744,968 | 3,174,180 | - | - | 3,168,536 | - | 16,087,684 |
| Academic Support | 1,870,875 | 1,139,582 | - | - | 1,173,244 | - | 4,183,701 |
| Student Support | 2,126,059 | 768,859 | - | - | 2,681,043 | - | 5,575,961 |
| Operation & Maintenance of Plant | 1,412,495 | 503,766 | - | 1,051,904 | 3,524,297 | - | 6,492,462 |
| Institutional Support | 3,718,187 | 1,314,605 | - | - | 1,448,755 | - | 6,481,547 |
| Scholarships & Fellowships | - | - | 5,583,786 | - | - | - | 5,583,786 |
| Auxiliary Enterprises | 170,259 | 68,074 | - | - | 2,204,295 | - | 2,442,628 |
| Depreciation | - | - | - | - | - | 2,081,194 | 2,081,194 |
| Total Operating Expenses | <u>\$ 19,042,843</u> | <u>6,969,066</u> | <u>5,583,786</u> | <u>1,051,904</u> | <u>14,200,170</u> | <u>2,081,194</u> | <u>48,928,963</u> |

NOTE 18 – PURCHASES WITH OTHER SC HIGHER EDUCATION INSTITUTIONS

The College had significant financial transactions with other South Carolina public institutions of higher education during the fiscal year ended June 30, 2016. The College received goods and/or services from other South Carolina higher education institutions for a fee, as listed below:

| | Purchases |
|--------------------------------------|-------------------|
| Aiken Technical College | \$ 850 |
| Central Carolina Technical College | 1,350 |
| Clemson University | 95,958 |
| Midlands Technical College | 2,550 |
| Piedmont Technical College | 560 |
| University of South Carolina | 335 |
| University of South Carolina-Upstate | 357 |
| York Technical College | 215 |
| Total Purchases | <u>\$ 102,175</u> |

SPARTANBURG COMMUNITY COLLEGE

Notes To Financial Statements, Continued

June 30, 2016

NOTE 19 – STATEMENT OF ACTIVITIES

| | <u>2016</u> | <u>2015</u> | <u>Increase/ (Decrease)</u> |
|-----------------------------------------|----------------------|---------------------|---------------------------------|
| Charges for Services | \$ 19,702,570 | 21,357,282 | (1,654,712) |
| Operating Grants and Contributions | 19,426,866 | 19,381,570 | 45,296 |
| Capital Grants and Contributions | 2,755,665 | 2,042,653 | 713,012 |
| Less: Expenses | <u>(48,999,796)</u> | <u>(47,993,835)</u> | <u>(1,005,961)</u> |
| Net Program Revenue (Expense) | <u>(7,114,695)</u> | <u>(5,212,330)</u> | <u>(1,902,365)</u> |
| Transfers: | | | |
| State Appropriations | 7,494,918 | 6,694,861 | 800,057 |
| State Capital Appropriations | 1,906,816 | 2,156,816 | (250,000) |
| Capital Improvement Bond Proceeds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total General Revenue and Transfers | <u>9,401,734</u> | <u>8,851,677</u> | <u>550,057</u> |
| Change in Net Assets | 2,287,038 | 3,639,348 | (1,352,310) |
| Net Assets - Beginning of Year | 28,337,526 | 56,179,168 | (27,841,642) |
| Cumulative Effect of Accounting Changes | <u>-</u> | <u>(31,480,990)</u> | 31,480,990 |
| Beginning of Year Restated | <u>28,337,526</u> | <u>24,698,178</u> | <u>3,639,348</u> |
| Net Assets - Ending | <u>\$ 30,624,564</u> | <u>28,337,526</u> | <u>2,287,038</u> |

NOTE 20 – TRANSACTIONS WITH OTHER AGENCIES

The College had significant transactions with the State of South Carolina and various agencies.

Several services received at no cost from state agencies include maintenance of certain accounting records by the Comptroller General; check preparation, banking, bond trustee, and investment services from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

NOTE 21 – SUBSEQUENT EVENTS

Management has, through September 16, 2016, considered whether events have occurred or circumstances exist subsequent to the date of the financial statements, June 30, 2016, that would have materially significant effect on the carrying amounts of assets or liabilities, including estimates, and no such items have been identified.

SPARTANBURG COMMUNITY COLLEGE

June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Proportionate Share of the Net Pension Liability
South Carolina Retirement System**

| | FY 2016 | FY 2015 |
|---------------------------------------------------------------------------------------------------------------|----------------|----------------|
| College's proportion of the net pension liability | 0.176492% | 0.185000% |
| College's proportionate share of the net pension liability | \$ 33,472,535 | \$ 31,863,435 |
| College's covered-employee payroll | \$ 17,558,450 | \$ 17,680,152 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 190.63% | 180.22% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.00% | 59.92% |
| | 0.00324 | |

**Schedule of Proportionate Share of the Net Pension Liability
Police Officer's Retirement System**

| | FY 2016 | FY 2015 |
|---------------------------------------------------------------------------------------------------------------|----------------|----------------|
| College's proportion of the net pension liability | 0.00324% | 0.00400% |
| College's proportionate share of the net pension liability | \$ 70,637 | \$ 67,273 |
| College's covered-employee payroll | \$ 40,147 | \$ 40,147 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 175.95% | 167.57% |
| Plan fiduciary net position as a percentage of the total pension liability | 64.60% | 67.55% |

SPARTANBURG COMMUNITY COLLEGE

June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of College Contributions
South Carolina Retirement System**

| | FY 2016 | FY 2015 |
|------------------------------------------------------------------------|----------------|----------------|
| Contractually required contribution | \$ 1,824,011 | \$ 1,804,108 |
| Contribution in relation to the contractually required contribution | \$ (1,824,011) | \$ (1,804,108) |
| Contribution deficiency (excess) | \$ - | \$ - |
| College's covered-employee payroll | \$ 17,419,328 | \$ 17,558,450 |
| Contributions as a portion of covered employee payroll | 10.47% | 10.27% |

**Schedule of College Contributions
Police Officer's Retirement System**

| | FY 2016 | FY 2015 |
|------------------------------------------------------------------------|----------------|----------------|
| Contractually required contribution | \$ 5,177 | \$ 5,384 |
| Contribution in relation to the contractually required contribution | \$ (5,177) | \$ (5,384) |
| Contribution deficiency (excess) | \$ - | \$ - |
| College's covered-employee payroll | \$ 37,681 | \$ 40,147 |
| Contributions as a portion of covered employee payroll | 13.74% | 13.41% |