

CAROLINA PIEDMONT  
FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2007 and 2006

( with Independent Auditors'  
Report thereon )

**CAROLINA PIEDMONT FOUNDATION, INC.**

June 30, 2007 and 2006

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## Independent Auditors' Report

Board of Directors  
Carolina Piedmont Foundation, Inc.

We have audited the accompanying consolidated statements of financial position of Carolina Piedmont Foundation, Inc. (the "Foundation") as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carolina Piedmont Foundation, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, certain errors were discovered during 2007 relating primarily to charitable remainder trust assets and liabilities. The 2006 financial statements have been restated and an adjustment has been made to net assets as of July 1, 2005.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the schedules (as identified in the table of contents) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Dixon Hughes PLLC*

September 12, 2007

**CAROLINA PIEDMONT FOUNDATION, INC.**  
Consolidated Statements of Financial Position  
June 30, 2007 and 2006

	<u>Assets</u>	
	<u>2007</u>	<u>Restated 2006</u>
Cash and cash equivalents	\$ 839,446	\$ 555,610
Accounts receivable	49,784	894
Pledges receivable, net	773,791	971,426
Investments	5,736,093	4,771,338
Prepaid expenses	25,679	543
Assets held in charitable remainder trusts	264,733	488,357
Fixed assets, net	13,209,878	13,737,036
Bond costs, net	264,980	275,476
Other assets	7,896	8,745
Interest rate swap contract	163,930	228,187
	<u>21,336,210</u>	<u>21,037,612</u>
Total assets	\$ <u>21,336,210</u>	\$ <u>21,037,612</u>
 <b><u>Liabilities and Net Assets</u></b> 		
Accounts and grants payable	\$ 328,564	\$ 644,708
Liability under charitable remainder trusts	247,855	385,966
Line of credit	814,715	905,150
Long-term debt	15,160,570	15,392,485
	<u>16,551,704</u>	<u>17,328,309</u>
Total liabilities	16,551,704	17,328,309
 Net assets:		
Unrestricted	281,878	(145,801)
Temporary restricted	1,761,969	1,288,940
Permanently restricted	2,740,659	2,566,164
	<u>4,784,506</u>	<u>3,709,303</u>
Total net assets	4,784,506	3,709,303
Total liabilities and net assets	\$ <u>21,336,210</u>	\$ <u>21,037,612</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CAROLINA PIEDMONT FOUNDATION, INC.**

Consolidated Statements of Activities

For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues, gains and other support:				
Contributions from fund raising	\$ 37,003	\$ 835,200	\$ 174,495	\$ 1,046,698
In-kind contributions	16,698	-	-	16,698
State funding	327,820	-	-	327,820
Earned income	35,157	367,232	-	402,389
Revenue from USC Upstate	1,096,856	-	-	1,096,856
Lease income	158,752	-	-	158,752
Rental income	740	-	-	740
Realized gains on investments	257,992	-	-	257,992
Unrealized gains on investments	392,342	-	-	392,342
Investment income, net	156,294	-	-	156,294
Change in value of charitable remainder trust	-	136,264	-	136,264
Loss on disposal of assets	(210,287)	-	-	(210,287)
Miscellaneous income	39	-	-	39
Satisfaction of program restrictions	865,667	(865,667)	-	-
Total operating revenues, gains and other support	<u>3,135,073</u>	<u>473,029</u>	<u>174,495</u>	<u>3,782,597</u>
Operating expenses:				
Scholarships	51,511	-	-	51,511
Grants	250,974	-	-	250,974
Other support provided USC Upstate	585,293	-	-	585,293
Other support provided in-kind	16,698	-	-	16,698
State funding	327,820	-	-	327,820
Supporting services	59,272	-	-	59,272
Interest expense	678,621	-	-	678,621
Depreciation and amortization	420,110	-	-	420,110
Bank service fees	211,973	-	-	211,973
Rental expense	40,864	-	-	40,864
Total operating expenses	<u>2,643,136</u>	<u>-</u>	<u>-</u>	<u>2,643,136</u>
Excess of revenues over (under) expenses	491,937	473,029	174,495	1,139,461
Interest rate swap fair market value adjustment	<u>(64,258)</u>	<u>-</u>	<u>-</u>	<u>(64,258)</u>
Change in net assets	<u>427,679</u>	<u>473,029</u>	<u>174,495</u>	<u>1,075,203</u>
Net assets at beginning of year	<u>(145,801)</u>	<u>1,288,940</u>	<u>2,566,164</u>	<u>3,709,303</u>
Net assets at end of year	<u>\$ 281,878</u>	<u>\$ 1,761,969</u>	<u>\$ 2,740,659</u>	<u>\$ 4,784,506</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CAROLINA PIEDMONT FOUNDATION, INC.**

Consolidated Statements of Activities

For the Year Ended June 30, 2006 (Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues, gains and other support:				
Contributions from fund raising	\$ 45,637	\$ 1,682,342	\$ 16,289	\$ 1,744,268
In-kind contributions	39,125	-	-	39,125
State funding	291,680	-	-	291,680
Earned income	3,643	308,609	-	312,252
Revenue from USC Upstate	1,137,528	-	-	1,137,528
Lease income	75,000	-	-	75,000
Rental income	50,235	-	-	50,235
Realized gains on investments	90,379	-	-	90,379
Unrealized gains on investments	42,299	-	-	42,299
Investment income, net	118,301	-	-	118,301
Change in value of charitable remainder trust	-	(27,003)	-	(27,003)
Loss on disposal of assets	(52,164)	-	-	(52,164)
Miscellaneous income	4,725	-	-	4,725
Satisfaction of program restrictions	899,321	(899,321)	-	-
Total operating revenues, gains and other support	<u>2,745,709</u>	<u>1,064,627</u>	<u>16,289</u>	<u>3,826,625</u>
Operating expenses:				
Scholarships	63,873	-	-	63,873
Grants	476,530	-	-	476,530
Other support provided USC Upstate	507,459	-	-	507,459
Other support provided in-kind	39,125	-	-	39,125
State funding	291,680	-	-	291,680
Supporting services	80,380	-	-	80,380
Interest expense	669,869	-	-	669,869
Depreciation and amortization	413,793	-	-	413,793
Bank service fees	206,139	-	-	206,139
Rental expense	17,135	-	-	17,135
Total operating expenses	<u>2,765,983</u>	<u>-</u>	<u>-</u>	<u>2,765,983</u>
Excess of revenues over (under) expenses	(20,274)	1,064,627	16,289	1,060,642
Interest rate swap fair market value adjustment	<u>824,250</u>	<u>-</u>	<u>-</u>	<u>824,250</u>
Change in net assets	803,976	1,064,627	16,289	1,884,892
Net assets at beginning of year, restated	<u>(949,777)</u>	<u>224,313</u>	<u>2,549,875</u>	<u>1,824,411</u>
Net assets at end of year	<u><u>\$ (145,801)</u></u>	<u><u>\$ 1,288,940</u></u>	<u><u>\$ 2,566,164</u></u>	<u><u>\$ 3,709,303</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**CAROLINA PIEDMONT FOUNDATION, INC.**

## Consolidated Statements of Cash Flows

For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>Restated</u> <u>2006</u>
Cash flows from operating activities:		
Cash received from contributors	\$ 1,021,797	\$ 925,465
Cash received from investments	156,294	118,301
Cash received from student fund raising activities	402,389	276,823
Cash received from leasing and rental activities	1,256,348	1,262,763
Miscellaneous receipts	39	4,725
Scholarships paid	(51,511)	(63,873)
Grants paid	(614,238)	(580,062)
Other support to USC Upstate paid	(547,851)	(556,672)
Supporting service costs	137,369	(78,750)
Interest paid	(675,999)	(669,869)
Bank fees paid	(204,917)	(206,139)
Rental expenses paid	(40,864)	(17,135)
Net cash flows provided by operating activities	<u>838,856</u>	<u>415,577</u>
Cash flows from investing activities:		
Purchase of fixed assets	(13,641)	(85,204)
Proceeds from sale of property	-	33,300
Purchase of investments	(8,546,898)	(1,086,252)
Proceeds from sale of investments	8,232,476	893,042
Net cash flows used in investing activities	<u>(328,063)</u>	<u>(245,114)</u>
Cash flows from financing activities:		
Endowment contributions	174,495	33,289
Payments on long term debt	(401,452)	(336,698)
Net cash flows used in financing activities	<u>(226,957)</u>	<u>(303,409)</u>
Net increase (decrease) in cash and cash equivalents	283,836	(132,946)
Cash and cash equivalents, beginning of the year	<u>555,610</u>	<u>688,556</u>
Cash and cash equivalents, end of the year	<u>\$ 839,446</u>	<u>\$ 555,610</u>
Supplemental disclosures:		
Acquisition of vehicle through issuance of debt	<u>\$ 112,533</u>	<u>\$ 19,138</u>

(continued)

**CAROLINA PIEDMONT FOUNDATION, INC.**  
Consolidated Statements of Cash Flows (continued)  
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>Restated</u> <u>2006</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,075,203	\$ 1,884,892
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Net unrealized gains on investments	(392,342)	(42,299)
Net realized gains on investments	(257,992)	(90,379)
Depreciation and amortization	420,110	413,793
Contributions and interest restricted for long term investment	(174,495)	(33,289)
Contributions of stock	-	(1,150)
Loss on disposal of fixed assets	210,287	52,164
Interest rate swap fair value adjustment	64,258	(824,250)
Changes in operating assets and liabilities:		
Pledges and accounts receivable	148,745	(802,371)
Prepaid expenses	(25,136)	4,236
Cash value of life insurance	849	1,007
Assets held in charitable remainder trusts	223,624	1,084
Accounts and grants payable	(316,144)	(138,351)
Deferred revenue	-	(35,429)
Liability under charitable remainder trusts	(138,111)	25,919
	<u>838,856</u>	<u>415,577</u>
Net cash provided by operating activities	\$ <u>838,856</u>	\$ <u>415,577</u>

The accompanying notes are an integral part of these consolidated financial statements.



## CAROLINA PIEDMONT FOUNDATION, INC.

Notes to the Consolidated Financial Statements

June 30, 2007 and 2006

### 1. **Organization and Purpose**

Carolina Piedmont Foundation, Inc. (the “Foundation”) was incorporated under the laws of South Carolina to operate as a permanent foundation to accept gifts for charitable, benevolent, cultural and educational purposes for the exclusive use and benefit of the University of South Carolina Upstate (“USC Upstate”). The Foundation’s activities are overseen by a self-perpetuating, independent Board of Directors.

In 2002, the Foundation established CPF Properties, LLC (the “Properties”). The Properties were organized to carry out the charitable and educational purposes of the Foundation, to benefit USC Upstate, as a nonprofit entity, and to acquire and manage real property for student housing facilities.

### 2. **Summary of Significant Accounting Policies**

**Basis of Presentation** – The financial statements are presented in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 117, “*Financial Statements of Not-for-Profit Organizations*.” This statement requires the reporting of total assets, liabilities and net assets in a statement of financial position, reporting the change in net assets in a statement of activities, and reporting the sources and uses of cash and cash equivalents in a statement of cash flows.

SFAS 117 also requires that net assets and revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

*Temporarily Restricted* – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

*Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Foundation or may otherwise be limited by contractual agreements with outside parties.

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Foundation and the Properties, a limited liability corporation in which the Foundation has controlling interest. All material interorganizational transactions have been eliminated.

**Revenues** – Unconditional promises to give (pledges) are recorded as receivables and revenues within the appropriate net assets category. Revenues are considered to be available for unrestricted use unless specifically restricted by the donor.

**Cash and Cash Equivalents** – Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased.

Cash is maintained in bank deposit accounts, which at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Investments** – Investments, consisting of mutual funds, stocks and bonds, are recorded at fair market value.

**Investment Return Policy** – Investments are managed to achieve maximum long-term total return. Therefore, the distinction between dividend and interest income and capital gains is not considered significant. The board has authorized a policy permitting the distribution of investment earnings of an amount not exceeding 6% of the average fund balances to the various individuals temporarily and permanently restricted funds. This policy is designed to preserve the value of the portfolio in real terms (after inflation) and provide a predictable flow of funds to support operations. Excess earnings are unrestricted as to their use.

**Fixed Assets** – Fixed assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Interest costs, if any, incurred during construction periods are capitalized as a cost of the constructed assets. The Foundation has a policy to capitalize any fixed asset purchases greater than \$5,000.

**Other Assets** – Other assets consists of an investment in a life insurance policy.

**Income Taxes** – The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Charitable Remainder Trusts** – Charitable remainder trusts represent assets that are currently held in trust for the benefit of designated income beneficiaries. Upon the death of the beneficiaries, the assets held in trust will be distributed to the Foundation based upon the provisions of the trust, principally for unrestricted use. The value of assets and liabilities of the charitable remainder trusts is computed using a 7.5% discount rate.

For those charitable remainder trusts for which the Foundation is the trustee, an asset is recorded for the market value of the assets held in the trust, while a corresponding liability is recorded for the discounted value of future payments to the beneficiary.

**Contributed Support** – Occasionally, the Foundation receives contributions of goods and supplies for use in its programs. Contributed goods and supplies are recognized as revenue and expensed at their estimated fair value at the date of receipt. They are classified as in-kind contributions and other support provided in-kind in the accompanying consolidated statements of activities.

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risk and Uncertainties** – The Foundation maintains investments in various stocks, fixed income securities, money market funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the Foundation's investment balance reported in the statement of financial position.

**Bond Costs** – Bond costs are amortized over the term of the related debt.

3. **Pledges Receivable**

Unconditional promises to give are to be received by the Foundation in future years and are deemed by management to be collectible.

	<u>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 23,542	\$ 322,442
Receivable in one to five years	752,185	648,497
Receivable in more than five years	<u>105,000</u>	<u>135,000</u>
Total unconditional promises to give	880,727	1,105,939
Less discounts to present value at 5% and 6%, respectively	<u>106,936</u>	<u>134,513</u>
	<u>\$ 773,791</u>	<u>\$ 971,426</u>

4. **Investments**

Investments are stated at market value. Realized and unrealized gains and losses are reflected in the statement of activities.

Investments held by the Foundation as of June 30 follow:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Spartanburg County Foundation:		
Domestic equity	\$ 2,225,918	\$ -
International equity	910,259	-
Alternative strategies	707,185	-
Fixed income	<u>846,944</u>	<u>-</u>
	<u>4,690,306</u>	<u>-</u>
Bank of America:		
Mutual funds:		
Fixed income	-	1,008,903
Equity	-	762,594
Common stock	1,045,787	768,794
Corporate bonds	<u>-</u>	<u>1,090,436</u>
	<u>1,045,787</u>	<u>3,630,727</u>
BB&T:		
Mutual funds:		
Government bond	-	67,938
Government income	-	129,239
Common stock	<u>-</u>	<u>257,047</u>
	<u>-</u>	<u>454,224</u>
Vanguard:		
Mutual funds:		
Index 500	<u>-</u>	<u>686,387</u>
Total investments	<u>\$ 5,736,093</u>	<u>\$ 4,771,338</u>

5. **Fixed Assets**

Fixed assets of the Foundation as of June 30 follow:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Land	\$ 382,956	\$ 382,956
Building	14,021,806	14,214,837
Equipment	<u>174,441</u>	<u>170,753</u>
	14,579,203	14,768,546
Less accumulated depreciation	<u>1,369,325</u>	<u>1,031,510</u>
	<u>\$ 13,209,878</u>	<u>\$ 13,737,036</u>

**6. Investment in Life Insurance Policy**

The Foundation is the owner and beneficiary of a fully paid life insurance policy with an aggregate face amount of \$100,000 and a cash surrender value of approximately \$7,900 and \$8,700 at June 30, 2007 and 2006. The investment in the policy is recorded at its cash surrender value.

**7. Long-Term Debt**

The Foundation entered into an agreement with a bank which enabled it to purchase property adjacent to the USC Upstate campus. Payments of \$6,199 including principal and interest at 8.5% are to be made monthly through January 2016. The loan is collateralized by the property and the proceeds of a lease with USC Upstate that renews annually. The loan balance at June 30, 2007 and 2006 was \$447,086 and \$481,275, respectively.

The Foundation entered into an agreement with a finance company to borrow \$29,687 with no interest to purchase an automobile, with payments of \$487 to be made monthly through February 2010. During 2007, this automobile was traded in on a new automobile. The Foundation borrowed \$25,328 at 9.2% interest. Monthly payments of \$432 are to be made through February 2010 with a lump sum payment of \$15,959 due in March 2010. The loan balance was \$24,588 and \$21,963 at June 30, 2007 and 2006, respectively.

The Foundation entered into an agreement with a finance company to borrow \$26,683 to purchase an automobile at 2.9% interest, with payments of \$405 to be made monthly through May 2010. During 2007, this automobile was traded in on a new automobile. The Foundation borrowed \$33,762 with no interest, with payments of \$469 to be made monthly through September 2012. The loan balance at June 30, 2007 and 2006 was \$29,072 and \$17,589, respectively.

During 2006, the Foundation entered into an agreement with a bank to borrow \$19,138 to purchase an automobile at 6.25% interest. Payments of \$319 are to be made monthly through July 2012. The loan balance at June 30, 2007 and 2006 was \$13,784 and \$16,658.

During 2007, the Foundation entered into an agreement with a bank to borrow \$28,117 to purchase an automobile at 6.9% interest. Payments of \$542 are to be made monthly through July 2009 with a lump sum payment of \$13,484 due in August 2009. The loan balance at June 30, 2007 was 24,022.

During 2007, the Foundation entered into an agreement with a bank to borrow \$32,624 to purchase an automobile at 6.9% interest. Payments of \$623 are to be made monthly through December 2008 with a lump sum payment of \$19,030 due in January 2009. The loan balance at June 30, 2007 was 27,018.

The Properties obtained \$15.1 million through South Carolina Job Economic Development Authority Bonds (Series 2002) to finance construction of student housing facilities on the USC Upstate campus. The bonds are payable in yearly principal installments ranging from \$245,000 to \$990,000 with a variable interest rate (see Note 8) set by a bank, maturing September 2032. The balance outstanding at June 30, 2007 and 2006 was \$14,595,000 and \$14,855,000, respectively.

Future maturities of long-term debt for the year ended June 30 follow:

2008	\$ 334,481
2009	363,570
2010	389,882
2011	376,839
2012	392,675
Thereafter	<u>13,303,123</u>
	<u>\$ 15,160,570</u>

The bonds have certain restrictive covenants pertaining to debt service coverage ratio. The Properties is also required to maintain minimum debt service reserve and sinking fund reserve balances. As of June 30, 2007 and 2006, the Properties were in compliance with such covenants.

Total interest paid on long-term debt for the year ended June 30, 2007 and 2006 was approximately \$679,000 and \$670,000, respectively.

#### 8. **Interest Rate Swap**

The Properties utilize an interest rate swap derivative instrument to manage changes in market conditions related to interest rate payments on its variable rate Series 2002 bond obligation. As of June 30, 2007, the Properties has an interest rate swap agreement for a total notional amount of \$11.7 million, effectively fixing the rate on a like amount of variable rate borrowings. Management of the Properties has determined the interest rate swap to be an effective cash flow hedge.

The Properties has recognized its derivative at fair value, representing an asset of \$163,930 and \$228,187 at June 30, 2007 and 2006. Changes in the fair value for the effective portion of the gain or loss on a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded as income or expense in the Statement of Activities.

#### 9. **Line of Credit**

The Foundation has a \$1.2 million revolving line of credit, secured by property. Interest is charged at the lending institution's prime rate less .5%, and the line matures in May 2012. The outstanding balance was \$814,715 and \$905,150 at June 30, 2007 and 2006.

The line of credit has certain restrictive covenants. As of June 30, 2007, the Foundation is in compliance with such covenants.

**10. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2007</u>	<u>2006</u>
Scholarships	\$ 312,297	\$ 227,362
Other activities of the Foundation	<u>1,449,672</u>	<u>1,061,578</u>
	<u>\$ 1,761,969</u>	<u>\$ 1,288,940</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support scholarships, professorships, and other academic and University related activities.

**11. Operating Leases****As Lessee**

During 2006, the Foundation leased one vehicle under an operating lease, which ended during 2007. Total rent expense under this lease was approximately \$1,000 and \$21,000, for the years ending June 30, 2007 and 2006.

The Foundation has an agreement with Spartanburg County to lease 1.4 acres for an annual rental of \$1 through the year 2022. The Foundation has a lease agreement for approximately 15 acres of land adjacent to the campus for \$1, renewable annually.

**As Lessor**

The Foundation leases the 15 acres of land to USC Upstate for \$1, renewable annually. The Foundation also leases 13 acres of land to USC Upstate for \$1, renewable annually. The Foundation leases a building to USC Upstate for \$75,000 per year, renewal annually and the lease payments shall not exceed the debt service. The Foundation leases another property to USC Upstate for \$90,000, renewable annually for five years. The Foundation also leases a building to the Quality Institute of USC Upstate for \$1 annually.

**12. State Funding**

The following salaries and fringe benefits were funded by the State of South Carolina:

	<u>2007</u>	<u>2006</u>
Salaries	\$ 264,314	\$ 228,438
Fringe benefits	<u>63,506</u>	<u>63,242</u>
	<u>\$ 327,820</u>	<u>\$ 291,680</u>

The related revenue and expenses are included in the statement of activities in the unrestricted fund as contribution revenue and supporting service expense.

13. **Functional Expenses**

Functional expenses for the years ended June 30 follow:

	<u>2007</u>	<u>2006</u>
Program services:		
Support for USC Upstate	\$ 1,149,887	\$ 1,360,995
Fund raising	35,622	15,066
Management and general:		
Supporting services	<u>1,457,627</u>	<u>1,389,922</u>
	<u>\$ 2,643,136</u>	<u>\$ 2,765,983</u>

14. **Prior Period Adjustment**

During 2007, certain errors were discovered related primarily to charitable remainder trust assets and liabilities and prior period adjustments were recorded to correct these errors. These prior period adjustments, which were corrected as of July 1, 2005, are summarized as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<b>Consolidated Statement of Financial Position December 31, 2006:</b>			
Assets held in charitable remainder trust	\$ 716,471	\$ (228,114)	\$ 488,357
Beneficial interest in charitable remainder trusts	229,151	(229,151)	-
Total assets	21,494,877	(457,265)	21,037,612
Accounts and grants payable	552,708	92,000	644,708
Liability under charitable remainder trust	1,020,195	(634,229)	385,966
Total liabilities	17,870,538	(542,229)	17,328,309
Net assets:			
Unrestricted	(145,374)	(427)	(145,801)
Temporarily restricted	1,186,549	102,391	1,288,940
Permanently restricted	<u>2,583,164</u>	<u>(17,000)</u>	<u>2,566,164</u>
Total net assets	3,624,339	84,964	3,709,303
<b>Consolidated Statement of Activities for the year ended December 31, 2006:</b>			
Change in value of charitable remainder trust	(35,414)	8,411	(27,003)
Contributions from fundraising	33,289	(17,000)	16,289

The prior period adjustments described above resulted in a decrease of approximately \$8,600 to 2006 change in net assets.



**CAROLINA PIEDMONT FOUNDATION, INC.**

## Consolidating Statement of Financial Position

June 30, 2007

	<b>Carolina Piedmont Foundation, Inc.</b>	<b>CPF Properties LLC</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 411,620	\$ 427,826	\$ 839,446
Accounts receivable	1,798	47,986	49,784
Pledges receivable, net	773,791	-	773,791
Investments	4,690,306	1,045,787	5,736,093
Prepaid expenses	25,679	-	25,679
Assets held in charitable remainder trusts	264,733	-	264,733
Fixed assets, net	1,214,276	11,995,602	13,209,878
Bond costs, net	-	264,980	264,980
Other assets	7,896	-	7,896
Interest rate swap contract	-	163,930	163,930
Total assets	<u>\$ 7,390,099</u>	<u>\$ 13,946,111</u>	<u>\$ 21,336,210</u>
<b><u>Liabilities and Net Assets</u></b>			
Accounts and grants payable	\$ 325,942	\$ 2,622	\$ 328,564
Liability under charitable remainder trusts	247,855	-	247,855
Line of credit	814,715	-	814,715
Long-term debt	565,570	14,595,000	15,160,570
Total liabilities	<u>1,954,082</u>	<u>14,597,622</u>	<u>16,551,704</u>
Net assets:			
Unrestricted	933,389	(651,511)	281,878
Temporary restricted	1,761,969	-	1,761,969
Permanently restricted	2,740,659	-	2,740,659
Total net assets	<u>5,436,017</u>	<u>(651,511)</u>	<u>4,784,506</u>
Total liabilities and net assets	<u>\$ 7,390,099</u>	<u>\$ 13,946,111</u>	<u>\$ 21,336,210</u>

See Independent Auditors' Report.

**CAROLINA PIEDMONT FOUNDATION, INC.**

Consolidating Statement of Financial Position

June 30, 2006 (Restated)

	<b><u>Carolina Piedmont Foundation, Inc.</u></b>	<b><u>CPF Properties LLC</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 213,007	\$ 342,603	\$ 555,610
Accounts receivable	894	-	894
Pledges receivable, net	971,426	-	971,426
Investments	3,680,902	1,090,436	4,771,338
Prepaid expenses	543	-	543
Assets held in charitable remainder trusts	488,357	-	488,357
Fixed assets, net	1,408,218	12,328,818	13,737,036
Bond costs, net	-	275,476	275,476
Other assets	8,745	-	8,745
Interest rate swap contract	-	228,187	228,187
Total assets	<u>\$ 6,772,092</u>	<u>\$ 14,265,520</u>	<u>\$ 21,037,612</u>
<b><u>Liabilities and Net Assets</u></b>			
Accounts and grants payable	\$ 644,708	\$ -	\$ 644,708
Liability under charitable remainder trusts	385,966	-	385,966
Line of credit	905,150	-	905,150
Long-term debt	537,485	14,855,000	15,392,485
Total liabilities	<u>2,473,309</u>	<u>14,855,000</u>	<u>17,328,309</u>
Net assets:			
Unrestricted	443,679	(589,480)	(145,801)
Temporary restricted	1,288,940	-	1,288,940
Permanently restricted	2,566,164	-	2,566,164
Total net assets	<u>4,298,783</u>	<u>(589,480)</u>	<u>3,709,303</u>
Total liabilities and net assets	<u>\$ 6,772,092</u>	<u>\$ 14,265,520</u>	<u>\$ 21,037,612</u>

See Independent Auditors' Report.

**CAROLINA PIEDMONT FOUNDATION, INC.**  
Consolidating Statement of Unrestricted Revenues, Expenses and  
Other Changes in Unrestricted Net Assets  
For the Year Ended June 30, 2007

	<b>Carolina Piedmont Foundation, Inc.</b>	<b>CPF Properties LLC</b>	<b>Total</b>
Unrestricted revenues, gains and other support:			
Contributions from fund raising	\$ 37,003	\$ -	\$ 37,003
In-kind contributions	16,698	-	16,698
State funding	327,820	-	327,820
Earned income	35,157	-	35,157
Revenue from USC Upstate	-	1,096,856	1,096,856
Lease income	158,752	-	158,752
Rental income	740	-	740
Realized gains on investments	257,992	-	257,992
Unrealized gains on investments	392,342	-	392,342
Investment income, net	98,392	57,902	156,294
Loss on disposal of fixed assets	(210,287)	-	(210,287)
Miscellaneous income	39	-	39
Total unrestricted revenues and gains	<u>1,114,648</u>	<u>1,154,758</u>	<u>2,269,406</u>
Net assets released from restrictions	<u>865,667</u>	<u>-</u>	<u>865,667</u>
Total unrestricted revenues, gains and other support	<u>1,980,315</u>	<u>1,154,758</u>	<u>3,135,073</u>
Expenses:			
Scholarships	51,511	-	51,511
Grants	250,974	-	250,974
Other support provided USC Upstate	538,506	46,787	585,293
Other support provided in-kind	16,698	-	16,698
State funding	327,820	-	327,820
Supporting services	59,272	-	59,272
Interest expense	113,828	564,793	678,621
Depreciation and amortization	76,398	343,712	420,110
Bank and bond service fees	14,734	197,239	211,973
Rental expense	40,864	-	40,864
Total expenses	<u>1,490,605</u>	<u>1,152,531</u>	<u>2,643,136</u>
Excess of revenues over expenses	489,710	2,227	491,937
Interest rate swap fair market value adjustment	<u>-</u>	<u>(64,258)</u>	<u>(64,258)</u>
Change in unrestricted net assets	<u>\$ 489,710</u>	<u>\$ (62,031)</u>	<u>\$ 427,679</u>

See Independent Auditors' Report.

**CAROLINA PIEDMONT FOUNDATION, INC.**  
Consolidating Statement of Unrestricted Revenues, Expenses and  
Other Changes in Unrestricted Net Assets  
For the Year Ended June 30, 2006 (Restated)

	<b>Carolina Piedmont Foundation, Inc.</b>	<b>CPF Properties LLC</b>	<b>Total</b>
Unrestricted revenues, gains and other support:			
Contributions from fund raising	\$ 45,637	\$ -	\$ 45,637
In-kind contributions	39,125	-	39,125
State funding	291,680	-	291,680
Earned income	3,643	-	3,643
Revenue from USC Upstate	-	1,137,528	1,137,528
Lease income	75,000	-	75,000
Rental income	50,235	-	50,235
Realized gains on investments	90,379	-	90,379
Unrealized gains on investments	33,291	9,008	42,299
Investment income, net	78,286	40,015	118,301
Loss on disposal of fixed assets	(52,164)	-	(52,164)
Miscellaneous income	4,725	-	4,725
Total unrestricted revenues and gains	<u>659,837</u>	<u>1,186,551</u>	<u>1,846,388</u>
Net assets released from restrictions	<u>899,321</u>	<u>-</u>	<u>899,321</u>
Total unrestricted revenues, gains and other support	<u>1,559,158</u>	<u>1,186,551</u>	<u>2,745,709</u>
Expenses:			
Scholarships	63,873	-	63,873
Grants	476,530	-	476,530
Other support provided USC Upstate	459,238	48,221	507,459
Other support provided in-kind	39,125	-	39,125
State funding	291,680	-	291,680
Supporting services	80,380	-	80,380
Interest expense	112,713	557,156	669,869
Depreciation and amortization	70,081	343,712	413,793
Bank and bond service fees	973	205,166	206,139
Rental expense	17,135	-	17,135
Total expenses	<u>1,611,728</u>	<u>1,154,255</u>	<u>2,765,983</u>
Excess of revenues over (under) expenses	<u>(52,570)</u>	<u>32,296</u>	<u>(20,274)</u>
Interest rate swap fair market value adjustment	<u>-</u>	<u>824,250</u>	<u>824,250</u>
Change in unrestricted net assets	<u>\$ (52,570)</u>	<u>\$ 856,546</u>	<u>\$ 803,976</u>

See Independent Auditors' Report.

**CAROLINA PIEDMONT FOUNDATION, INC.**  
**Consolidating Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2007**

	<b><u>Carolina Piedmont Foundation, Inc.</u></b>	<b><u>CPF Properties LLC</u></b>	<b><u>Total</u></b>
Unrestricted net assets:			
Total unrestricted revenues and gains	\$ 1,114,648	\$ 1,154,758	\$ 2,269,406
Total net assets released from restrictions	865,667	-	865,667
Total expenses	<u>(1,490,605)</u>	<u>(1,152,531)</u>	<u>(2,643,136)</u>
Excess of expenses over (under) revenues	489,710	2,227	491,937
Interest rate swap fair value adjustment	<u>-</u>	<u>(64,258)</u>	<u>(64,258)</u>
Increase (decrease) in unrestricted net assets	<u>489,710</u>	<u>(62,031)</u>	<u>427,679</u>
Temporarily restricted assets:			
Contributions from fundraising	835,200	-	835,200
Earned income	367,232	-	367,232
Change in value of charitable remainder trusts	136,264	-	136,264
Net assets released from restrictions	<u>(865,667)</u>	<u>-</u>	<u>(865,667)</u>
Increase in temporarily restricted funds	<u>473,029</u>	<u>-</u>	<u>473,029</u>
Permanently restricted assets:			
Contributions	<u>174,495</u>	<u>-</u>	<u>174,495</u>
Increase in net assets	1,137,234	(62,031)	1,075,203
Net assets at beginning of year	<u>4,298,783</u>	<u>(589,480)</u>	<u>3,709,303</u>
Net assets at end of year	<u>\$ 5,436,017</u>	<u>\$ (651,511)</u>	<u>\$ 4,784,506</u>

See Independent Auditors' Report.

**CAROLINA PIEDMONT FOUNDATION, INC.**  
**Consolidating Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2006 (Restated)**

	<b><u>Carolina Piedmont Foundation, Inc.</u></b>	<b><u>CPF Properties LLC</u></b>	<b><u>Total</u></b>
Unrestricted net assets:			
Total unrestricted revenues and gains	\$ 659,837	\$ 1,186,551	\$ 1,846,388
Total net assets released from restrictions	899,321	-	899,321
Total expenses	<u>(1,611,728)</u>	<u>(1,154,255)</u>	<u>(2,765,983)</u>
Excess of expenses over (under) revenues	(52,570)	32,296	(20,274)
Interest rate swap fair value adjustment	<u>-</u>	<u>824,250</u>	<u>824,250</u>
Increase (decrease) in unrestricted net assets	<u>(52,570)</u>	<u>856,546</u>	<u>803,976</u>
Temporarily restricted assets:			
Contributions from fundraising	1,682,342	-	1,682,342
Earned income	308,609	-	308,609
Change in value of charitable remainder trusts	(27,003)	-	(27,003)
Net assets released from restrictions	<u>(899,321)</u>	<u>-</u>	<u>(899,321)</u>
Increase in temporarily restricted funds	<u>1,064,627</u>	<u>-</u>	<u>1,064,627</u>
Permanently restricted assets:			
Contributions	<u>16,289</u>	<u>-</u>	<u>16,289</u>
Increase in net assets	1,028,346	856,546	1,884,892
Net assets at beginning of year, restated	<u>3,270,437</u>	<u>(1,446,026)</u>	<u>1,824,411</u>
Net assets at end of year	<u>\$ 4,298,783</u>	<u>\$ (589,480)</u>	<u>\$ 3,709,303</u>

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