

**USC UPSTATE CAPITAL
DEVELOPMENT FOUNDATION, INC.**

**Auditors' Report and
Financial Statements
For the Year Ended June 30, 2017**

UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION

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Independent Auditors' Report

Board of Directors
USC Upstate Capital Development Foundation, Inc.
Spartanburg, South Carolina

We have audited the accompanying financial statements of the USC Upstate Capital Development Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

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

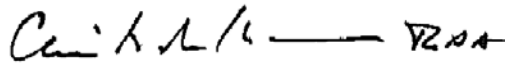
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USC Upstate Capital Development Foundation, Inc. as of June, 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

A handwritten signature in black ink, appearing to read "C. H. H. — R. S. A.", is written over a horizontal line.

Gaffney, South Carolina
September 8, 2017

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
 Statement of Financial Position
 As of June 30, 2017

ASSETS	
Cash and Cash Equivalents	\$ 48,798
Note Receivable	190,862
Total Assets	<u>239,660</u>
 LIABILITIES	
Long-Term Debt	164,757
Total Liabilities	<u>164,757</u>
 NET ASSETS	
Unrestricted	74,903
Total Liabilities and Net Assets	<u>\$ 239,660</u>

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

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Statement of Activities
For the Year Ended June 30, 2017

Unrestricted Revenues, Gains and Other Support:	
Investment Income	\$ 9,382
Total Unrestricted Revenues, Gains and Other Support	<u>9,382</u>
Expenses:	
Interest Expense	8,110
Foundation Operating Expenses	<u>10,603</u>
Total Operating Expenses	<u>18,713</u>
Excess on Revenues Over (Under) Expenses	(9,331)
Net Assets, Beginning of Year	<u>84,234</u>
Net Assets, End of Year	<u>\$ 74,903</u>

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

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows Provided (Used) by Operating Activities:	
Cash Paid to Suppliers, Employees, USC Upstate and Other Charities	\$ (10,603)
Investment Income Received	9,382
Interest Paid	<u>(8,110)</u>
Total Net Cash Provided (Used) by Operating Activities	<u>(9,331)</u>
Cash Flows Provided (Used) by Investing Activities:	
Collection on Notes Receivable	<u>68,618</u>
Total Net Cash Provided (Used) by Investing Activities	<u>68,618</u>
Cash Flows Provided (Used) by Financing Activities:	
Payments on Long-Term Debt	<u>(62,350)</u>
Total Net Cash Provided (Used) by Financing Activities	<u>(62,350)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(3,063)
Cash and Cash Equivalents at Beginning of Year	<u>51,861</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 48,798</u></u>

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

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Statement of Cash Flows. Continued
For the Year Ended June 30, 2017

Reconciliation of Change in Net Assets to Net Cash	
Provided (Used) by Operating Activities:	\$ (9,331)
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,331)</u>

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

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Notes to Financial Statements

NOTE 1 –NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

On July 14, 2011 the University of South Carolina Upstate Capital Development Foundation, Inc. (the Foundation) was incorporated under the laws of the State of South Carolina and established as a not-for-profit entity to accept real property donated to the university, serve as the purchasing agent for property on behalf of the USC Upstate that is integral to the growth of the campus, and to manage property under leasing agreements to the university. The Board of Directors for the Foundation consists of seven members of the community, and is self-perpetuating and independent.

In 2004, the University of South Carolina Upstate Foundation established CPF Properties II, LLC (“the Properties II”). The Properties II was organized to carry out the charitable and educational purposes of the Foundation, to benefit USC Upstate, as a nonprofit entity, and to acquire, fund, and manage real property for educational facilities. The Properties II constructed the George Dean Johnson, Jr. College of Business and Economics facility which opened May 2010 and is leased to USC Upstate for academic activities. The Properties II was transferred to the USC Upstate Capital Development Foundation, Inc. effective June 30, 2013. During the prior year, on March 29, 2016, the Properties II membership interest was sold to the University of South Carolina Development Foundation for the assumption of and satisfaction of the outstanding bonded debt. See Note 9.

Basis of Presentation

The financial statements are presented under Statement of Financial Accounting Standards which require the Foundation to report information regarding its financial position and activities according to three classes of net assets as follows:

Permanently Restricted Net Assets

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

Temporarily Restricted Net Assets

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

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.

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.

Deferred Revenue

Income from rents received in advance is deferred and recognized over the periods to which the rents relate.

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 statements of activities.

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Notes to Financial Statements, Continued

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Income Taxes

The Foundation is a not-for-profit Foundation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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, and the note receivable, with the related liability, approximate fair value because of the relatively short maturity of these financial instruments.

Notes Receivable

Notes receivable are stated at the outstanding principal amount net allowance for uncollectible notes. Management determines the allowance for uncollectible notes based on review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Management determines when a note receivable is considered delinquent. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower. Management determined that no allowance for uncollectible notes receivable was necessary at June 30, 2017.

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Notes to Financial Statements, Continued

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Property, Plant, and Equipment

Real property and buildings acquired or constructed by the Foundation are capitalized regardless of the amount. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings. Real estate donated to the foundation is recorded at its estimate fair value at the date of donation. Furniture and equipment in excess of \$5,000 are capitalized. Depreciation is computed using the straight-line method over the useful lives of the respective assets that range from 10 to 40 years. Leasehold improvements are depreciated over the remaining life of the lease.

Bond Costs

Bond costs are amortized over the term of the related debt.

Classification of Expenses on Statement of Activities

Program services include payments to fund operational expenses of the Leased facilities. Included in these costs are utilities, repairs, maintenance, onsite management, insurance for property and liability, management fees, depreciation and other costs of operating the facilities. Program services also include items paid for support of University of South Carolina Upstate including donations.

General and administrative expenses include the costs of operating the Foundation and include office supplies, professional fees, and miscellaneous expenses.

NOTE 2 – NOTES RECEIVABLE

The Foundation has one note receivable related to a capital lease of real estate. The note bears interest at 4.11% per annum and is payable over 120 months. The loan balance, allowances for loan losses and maturities are as follows:

Principal Due Fiscal Year Ended June 30	Valley Falls Property
2018	\$ 71,492
2019	74,487
2020	44,883
Total	<u>190,862</u>
Less Allowance for Loan Losses	-
	<u><u>\$ 190,862</u></u>

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.
Notes to Financial Statements, Continued

NOTE 3 – RELATED PARTY TRANSACTIONS

The USC Upstate Capital Development Foundation, Inc. has two separate capital lease agreements with the University which are described in Note 7.

CPF Properties II, LLC, a controlled entity of the Capital Development Foundation, also leased the George Dean Johnson, Jr. College of Business and Economics to the University during the year until the entity was sold, which is described in Note 8.

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains a bank account at one bank. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Foundation had no amount in excess of the FDIC limit at June 30, 2017.

NOTE 5 – LONG-TERM DEBT

Long-term debt at June 30, 2017 consisted of the following:

Quarterly payments of \$17,615 including interest at 3.92% per annum to be made through October 2019, and secured by a capital lease and related note receivable and a mortgage on property at 8000 Valley Falls Road, Spartanburg, S.C.

\$ 164,757

Future maturities of long-term debt are as follows:

Year Ending June 30	Valley Falls Property
2018	\$ 64,962
2019	67,546
2020	<u>32,249</u>
Total	<u>\$ 164,757</u>
Total interest paid during the year	\$ 8,110

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.

Notes to Financial Statements, Continued

NOTE 6 - CONTINGENCIES

Due to the nature of the Foundation's normal activities, it is routinely subject to a variety of claims and demands by various individuals and entities. Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. Loss contingencies may result for litigation, claims, audit disallowances, threatened property loss, or uncollectible receivables. Such situations are loss contingencies if the related liability has not been recorded, yet a loss is reasonably possible. Guarantees of others' debts are loss contingencies, however, even if the probability of loss is remote. The Foundation maintains insurance against certain loss contingencies with liability policies and physical damage coverage. At the date of this report, management is not aware of any contingencies that will result in any material loss to the Foundation.

NOTE 7 - LEASE INCOME

Operating Lease

The CPF Properties II, LLC had entered into a twenty year lease agreement with the University of South Carolina Upstate that expires in April, 2030. Under this lease agreement the University paid rent to the CPF Properties II, LLC for use of the George Dean Johnson, Jr. College of Business and Economics building facility in the amount of \$650,000 per year. At June 30, 2015, the net book value of the leased building and equipment was \$15,823,523, including accumulated depreciation of \$2,552,195. The prior year June 30, 2016 depreciation expense of \$335,312 represents depreciation to the date that CPF Properties II, LLC was sold, March 29, 2016.

Capital Leases

The Foundation has entered into a ten year capital lease agreement with University of South Carolina Upstate that expires in December, 2019. Under this lease agreement the University makes payments to the Foundation for the effective purchase of the Valley Falls property building and land in the amount of \$78,000 per year. These payments are classified as principal and interest on a note receivable.

The Foundation had entered into a ten year capital lease agreement with the University of South Carolina Upstate that expires in August, 2021. Under this lease agreement the University made payments to the Foundation for the effective purchase of the 151 PJ White Memorial Drive property, warehouse building and land in the amount of \$48,598 per year. These payments are classified as principal and interest on a note receivable. During the year the note receivable was paid along with the related property mortgage and the property was transferred to the University.

Each of these leases provides the University the option to purchase all rights, title and interest in the leased property at any time during the Initial Term of the lease at a price equal to the outstanding indebtedness owed with respect to the leased property at the time of the university's purchase of the leased property, and also the option to purchase the leased property for \$1.00 at the end of the Initial Term or once the outstanding indebtedness has been paid in full. The University's exercise of this option is subject to and conditioned upon the approval of the State Budget and Control Board, Division of General Services and Real Property Services.

USC UPSTATE CAPITAL DEVELOPMENT FOUNDATION, INC.

Notes to Financial Statements, Continued

NOTE 8 – SALE OF CPF PROPERTIES II, LLC MEMBERSHIP INTEREST

During the prior year, on March 29, 2016 the CPF Properties II, LLC membership interest was sold to the University of South Carolina Development Foundation for the assumption of and satisfaction of the outstanding bonded debt. The net assets of the CPF Properties II, LLC at the sale date was \$5,477,188, all unrestricted, and consisted of cash, unconditional promises to give, investments, property, plant and equipment, unamortized bond costs, a parking rights agreement, accounts payable, long-term debt in the form of bonds, and an interest rate swap contract which was satisfied and terminated at closing.

NOTE 9 - EVALUATION OF SUBSEQUENT EVENTS

Management has, through September 8, 2017, considered whether events have occurred or circumstances exist subsequent to the date of the financial statements, June 30, 2017, that would have materially significant effect on the carrying amounts of assets or liabilities, including estimates, and no such items have been identified.