

# University of South Carolina Upstate Foundation

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**Financial Statements**

**Year Ended June 30, 2019**

## **Table of Contents**

Independent Auditors' Report.....	1
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements.....	5



## **Independent Auditors' Report**

Board of Directors  
University of South Carolina Upstate Foundation  
Spartanburg, South Carolina

We have audited the accompanying financial statements of the University of South Carolina Upstate Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows 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 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 financial statements are free from material misstatement.

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 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 University of South Carolina Upstate Foundation as of June 30, 2019, 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.

*Dixon Hughes Goodman LLP*

**September 10, 2019**  
**Greenville, South Carolina**

**University of South Carolina Upstate Foundation**  
**Statement of Financial Position**  
**June 30, 2019**

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**Assets**

Cash and cash equivalents	\$ 261,735
Accounts receivable	31,251
Unconditional promises to give, net	1,478,642
Investments	13,442,105
Assets held in charitable remainder trust	<u>301,462</u>
Total assets	<u><u>\$ 15,515,195</u></u>

**Liabilities and Net Assets**

Liabilities:

Accounts payable	\$ 1,644
Liability under charitable remainder trusts	224,989
Due to South Carolina Commission on Higher Education	388,084
Long-term debt	<u>1,250,000</u>
Total liabilities	1,864,717

Net assets:

Net assets without donor restrictions	495,921
Net assets with donor restrictions	<u>13,154,557</u>
Total net assets	<u>13,650,478</u>
Total liabilities and net assets	<u><u>\$ 15,515,195</u></u>

**University of South Carolina Upstate Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total</u>
Operating revenues, gains and other support:			
Contributions	\$ 14,588	\$ 2,138,347	\$ 2,152,935
In-kind contributions	147,710	14,943	162,653
Earned income - contributions	-	17,789	17,789
Unrealized gain on investments	65,696	322,166	387,862
Realized gain on investments	-	70	70
Investment income, net	19,004	135,000	154,004
Change in value of charitable remainder trust	-	(916)	(916)
Administrative fee	83,202	-	83,202
Other revenue	-	48,253	48,253
Satisfaction of program restrictions	859,859	(859,859)	-
	<u>1,190,059</u>	<u>1,815,793</u>	<u>3,005,852</u>
Total operating revenues, gains, and other support			
Operating expenses:			
Program expenses:			
Scholarships	121,072	-	121,072
Supporting services to USC Upstate	581,490	-	581,490
Interest expense	60,724	-	60,724
In-kind expenses	145,622	-	145,622
Program operating expenses	13,682	-	13,682
Supporting expenses:			
Administrative fee	83,065	-	83,065
Bank fees	3,223	-	3,223
Foundation operating expenses	46,625	-	46,625
	<u>1,055,503</u>	<u>-</u>	<u>1,055,503</u>
Total operating expenses			
Change in net assets	134,556	1,815,793	1,950,349
Net assets, beginning of year	<u>361,365</u>	<u>11,338,764</u>	<u>11,700,129</u>
Net assets, end of year	<u>\$ 495,921</u>	<u>\$ 13,154,557</u>	<u>\$ 13,650,478</u>

**University of South Carolina Upstate Foundation**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

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Cash flows from operating activities:	
Change in net assets	\$ 1,950,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gains on investments	(387,862)
Realized and unrealized gains on investments	(70)
Net changes in operating assets and liabilities:	
Unconditional promises to give, net	397,077
Assets held in charitable remainder trust	15,900
Accounts payable	(31,291)
Liability under charitable remainder trusts	(14,984)
Due to University of South Carolina Upstate	(17,031)
Due to South Carolina Commission on Higher Education	46,870
Net cash provided by operating activities	<u>1,958,958</u>
Cash flows from investing activities:	
Sales of investments	755,492
Purchases of investments	<u>(2,835,016)</u>
Net cash used by investing activities	<u>(2,079,524)</u>
Cash flows from financing activities:	
Payments on long-term debt	<u>(250,000)</u>
Net cash used by financing activities	<u>(250,000)</u>
Decrease in cash and cash equivalents	(370,566)
Cash and cash equivalents, beginning of year	<u>632,301</u>
Cash and cash equivalents, end of year	<u>\$ 261,735</u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Description of Organization and Summary of Significant Accounting Policies**

#### ***Organization***

The University of South Carolina Upstate Foundation (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.

#### ***Basis of Accounting***

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time the liability is incurred.

#### ***Basis of Presentation***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

*Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions or otherwise limited by contractual agreements with outside parties and may be expended for any purpose by the Foundation.

*Net Assets with Donor Restrictions* – Net assets whose use by the Foundation is subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; such restrictions may be fulfilled by actions of the Foundation pursuant to those stipulations or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Net assets without donor restrictions include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as board designated. Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Net assets with donor restrictions held in perpetuity are resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Foundation to use or expend part or all of the income derived from the donated assets.

#### ***Use of Estimates***

The preparation of financial statements 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.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

The Foundation maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation ("FDIC"). At times throughout the year, the Foundation may maintain bank account balances in excess of the FDIC insured limit. It is management's opinion that the Foundation is not exposed to any significant credit risk related to cash.

## **University of South Carolina Upstate Foundation Notes to Financial Statements**

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### ***Promises to Give***

The Foundation records unconditional promises to give 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. Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected in future years are recorded at fair value at the date of the promise. The fair value is computed by using the present value of their estimated future cash flows, using a risk-free rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions. An allowance for uncollectible promises to give is determined based on collection experience in prior years and management's analysis of specific promises made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at June 30, 2019.

### ***Investments***

The Foundation's investments are recorded at fair value in the statement of financial position. The Foundation reports investment income and gains and losses on investments and increases or decreases in net assets without donor restrictions unless a donor or law restricts their use.

Investments are managed to achieve maximum long-term total return. Therefore, the distinction between dividend and interest income and realized gains is not considered significant. The board has authorized a policy permitting the distribution of amounts not exceeding 4% of the prior 12-quarter rolling average Unitized Market Value of the long-term pooled investment portfolio. This policy is designed to maintain the long-term purchasing power of each fund.

### ***Income Taxes***

The Foundation has been granted exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income tax is recorded in the accompanying financial statements. The Foundation has determined that it does not have any unrecognized tax benefits or obligations as of June 30, 2019.

### ***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 3.2% 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 payment of the beneficiary.

### ***In-Kind 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 statement of activities.

### ***Due to USC Upstate***

Throughout the year, the Foundation receives and provides support to USC Upstate. This support provided and received is recorded as in-kind contributions and expenses on the accompanying statement of activities. The excess (deficit) of support received and provided is recorded on the statement of financial position.

**University of South Carolina Upstate Foundation**  
**Notes to Financial Statements**

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***Due to South Carolina Commission of Higher Education***

Included in the Foundation's investment portfolio, the Foundation manages investments for the South Carolina Commission of Higher Education ("SCCHE"). SCCHE engaged the Foundation to manage these investments throughout the year and the Foundation receives a management fee. The investment balance of SCCHE is recorded in the investments and the accompanying liability is recorded on the statement of financial position.

***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.

***Methods Used for Allocation of Expenses among Programs and Supporting Services***

The Foundation allocates expenses on a functional basis among its various programs and supporting services. The Foundation uses a direct allocation of expenses.

***Implementation of Accounting Pronouncements***

During fiscal year 2019, the Foundation adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return.

**2. Unconditional Promises to Give**

Unconditional promises to give are included in the financial statements as receivables and revenue of the appropriate net asset category. Unconditional promises to give payments scheduled to be received after one year are discounted at approximately 3.0%. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Unconditional promises to give include the following at June 30, 2019:

Due in one year or less	\$ 428,657
Due in one to five years	1,117,469
	<u>1,546,126</u>
Less discount	(67,484)
Less allowance for uncollectible accounts	-
Unconditional promises to give - net	<u>\$ 1,478,642</u>

**University of South Carolina Upstate Foundation**  
**Notes to Financial Statements**

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**3. Investments**

Investments are stated at market value. Realized and unrealized gains and losses are reflected in the statement of activities. Management has evaluated investment values as of June 30, 2019 noting no permanent impairment. Investments consist of the following at June 30, 2019:

Spartanburg County Foundation:	
Domestic equity	\$ 3,333,750
International equity	1,976,426
Flexible capital	3,957,793
Fixed income	2,639,523
Real assets	1,334,465
	<hr/>
	13,241,957
Fidelity:	
Cash	15,323
Mutual funds	5,299
Common stock	179,526
	<hr/>
	200,148
	<hr/>
	\$ 13,442,105

The Spartanburg County Foundation's annual audited financial statements are available by contacting the Spartanburg County Foundation at 424 East Kennedy Street, Spartanburg, SC 29302, (864) 582-0138.

**4. Fair Value Disclosures**

Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Foundation's investment charitable remainder trusts are valued at the fair value of the trust's underlying assets which is derived principally from inputs of quoted prices in active markets as reported by the trust's fund managers. These are classified within Level 3 of the valuation hierarchy.

**University of South Carolina Upstate Foundation**  
**Notes to Financial Statements**

The following tables set forth by level within the fair value hierarchy the Foundation's assets accounted for at fair value on a recurring basis as of June 30, 2019:

	Fair value at June 30, 2019	Fair value measurements at June 30, 2019 using:		
		Quoted prices in active markets for identical assets (Level 1 inputs)	Significant other observable inputs (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investments:				
Domestic equity	\$ 3,333,750	\$ -	\$ 3,091,549	\$ 242,201
International equity	1,976,426	-	604,731	1,371,695
Flexible capital	3,957,793	-	1,418,842	2,538,951
Fixed income	2,639,523	-	2,031,820	607,703
Real assets	1,334,465	-	656,548	677,917
Mutual funds	5,299	5,299	-	-
Common stocks	<u>179,526</u>	<u>179,526</u>	-	-
Total investments	13,426,782	184,825	7,803,490	5,438,467
Assets held in charitable remainder trust	<u>301,462</u>	-	-	<u>301,462</u>
	<u>\$ 13,728,244</u>	<u>\$ 184,825</u>	<u>\$ 7,803,490</u>	<u>\$ 5,739,929</u>

Investments, described in Note 3, are held at fair value and included in the table above except cash totaling \$15,323 at June 30, 2019, respectively, which are held by the investment manager for investment.

**5. Long-Term Debt**

Long-term debt at June 30, 2019 consisted of the following:

The Foundation borrowed \$3,000,000 on May 19, 2011 which is separately secured by a guaranty and suretyship agreement at an interest rate equal to LIBOR plus 1.75%. The loan is payable in annual principal payments ranging from \$250,000 to \$1,250,000 with a final maturity in 2020.

\$ 1,250,000

**6. Restrictions on Net Assets**

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

Scholarships	\$ 486,831
Unconditional promises to give – time restriction	1,478,642
Other activities of the Foundation	2,693,579
Perpetual endowment	<u>8,495,505</u>
	<u>\$ 13,154,557</u>

## **7. Endowment Funds**

The Foundation's endowment funds consist of eighty-five individual donor-restricted funds established for a variety of purposes, which includes perpetual endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### ***Interpretation of Relevant Law***

Management has interpreted South Carolina's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation has classified as perpetual endowment (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction in the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) The investment policies of the Foundation.

### ***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2019.

### ***Return Objectives and Risk Parameters***

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that allow for growth of the corpus while minimizing the fluctuations in the value of the portfolio to meet the payout obligations as approved by the Board of Directors.

### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### ***Spending Policy and How the Investment Objectives Relate to the Spending Policy***

The amount of funds allocated for expenditure for the purposes for which the endowed funds were established are reviewed annually and calculated based on the prior 12-quarter rolling average Unitized Market Value of the primary management investment portfolio multiplied by the number of units held by each endowed fund on the calculation date. The current rate as of the date of adoption of this policy is 4%. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**University of South Carolina Upstate Foundation**  
**Notes to Financial Statements**

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Changes in endowment net assets by type of fund for the year ended June 30, 2019 are as follows:

	With Donor Restrictions
Endowment net assets, June 30, 2018	\$ 8,828,733
New gifts	1,813,673
Net revenues and gains	<u>438,885</u>
Endowment net assets, June 30, 2019	<u>\$ 11,081,291</u>

### **8. Related Party Transaction**

The following support was contributed by USC Upstate for the year ended June 30, 2019:

Salaries and fringe benefits	\$ 122,462
Occupancy	4,342
Technology and software	<u>2,875</u>
	<u>\$ 129,679</u>

During the year ended June 30, 2019, the Foundation provided USC Upstate support totaling \$145,174.

### **9. Contingencies**

Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. 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.

### **10. Liquidity and Availability**

The Organization's liquidity management structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets at June 30, 2019 as follows:

Cash and cash equivalents	\$ 261,735
Unconditional promises to gives, due in one year	428,657
Investments not restricted	<u>287,548</u>
	<u>\$ 977,940</u>

### **11. Subsequent Events**

On August 19, 2019 the Organization refinanced long-term debt disclosed in Footnote 5, extending the date of maturity from 2020 to 2024. The refinanced loan has an interest rate equal to LIBOR plus 1.75%. The loan is payable in annual principal payments ranging from \$250,000 to \$1,250,000 with a final maturity in 2024.

**University of South Carolina Upstate Foundation**  
**Notes to Financial Statements**

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The Foundation evaluated the effect subsequent events would have on the financial statements through September 10, 2019, which is the date the financial statements were available to be issued.