

University of South Carolina Upstate Foundation

Financial Statements

Year Ended June 30, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1 of the financial statements, certain errors in classifications of net assets as of June 30, 2017, were discovered during the current year. Accordingly, amounts reported for net assets beginning balances have been restated in the financial statements now presented, and adjustments have been made to net assets to correct the error. Our opinion is not modified with respect to that matter.

Dixon Hughes Goodman LLP

September 12, 2018
Greenville, South Carolina

University of South Carolina Upstate Foundation
Statement of Financial Position
June 30, 2018

Assets

Cash and cash equivalents	\$ 632,301
Unconditional promises to give - net	1,906,970
Investments	10,974,649
Assets held in charitable remainder trust	317,362
	<hr/>
Total assets	<u>\$ 13,831,282</u>

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 32,935
Liability under charitable remainder trusts	239,973
Due to USC Upstate	17,031
Due to South Carolina Commission of Higher Education	341,214
Long-term debt	1,500,000
	<hr/>
Total liabilities	2,131,153

Net assets:

Unrestricted	361,365
Temporarily restricted	4,656,932
Permanently restricted	6,681,832
	<hr/>
Total net assets	11,700,129
	<hr/>
Total liabilities and net assets	<u>\$ 13,831,282</u>

University of South Carolina Upstate Foundation
Statement of Activities
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues, gains and other support:				
Contributions	\$ 147,580	\$ 993,140	\$ 88,906	\$ 1,229,626
In-kind contributions	128,928	36,020	-	164,948
Earned income - contributions	-	57,405	-	57,405
Unrealized gain on investments	92,399	390,291	-	482,690
Investment income	3,416	184,433	-	187,849
Change in value of charitable remainder trust	-	50,227	-	50,227
Administrative fee	92,862	-	-	92,862
Satisfaction of program restrictions	726,401	(726,401)	-	-
Total operating revenues, gains, and other support	<u>1,191,586</u>	<u>985,115</u>	<u>88,906</u>	<u>2,265,607</u>
Operating expenses:				
Scholarships	92,947	-	-	92,947
Administrative fee	92,862	-	-	92,862
Supporting services	416,479	-	-	416,479
Interest expense	54,194	-	-	54,194
In-kind expenses	181,979	-	-	181,979
Bank fees	6,362	-	-	6,362
Foundation operating expenses	<u>147,810</u>	<u>-</u>	<u>-</u>	<u>147,810</u>
Total operating expenses	<u>992,633</u>	<u>-</u>	<u>-</u>	<u>992,633</u>
Change in net assets	198,953	985,115	88,906	1,272,974
Net assets, beginning of year, as restated	<u>162,412</u>	<u>3,671,817</u>	<u>6,592,926</u>	<u>10,427,155</u>
Net assets, end of year	<u>\$ 361,365</u>	<u>\$ 4,656,932</u>	<u>\$ 6,681,832</u>	<u>\$ 11,700,129</u>

University of South Carolina Upstate Foundation
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:	
Change in net assets	\$ 1,272,974
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gains on investments	(482,690)
Realized and unrealized gains on investments	(187,526)
Loss on disposal of property and equipment	27,300
Net changes in operating assets and liabilities:	
Unconditional promises to give - net	(151,034)
Assets held in charitable remainder trust	(119,580)
Accounts payable	27,482
Liability under charitable remainder trusts	126,107
Due to University of South Carolina Upstate	17,031
Due to South Carolina Commission of Higher Education	341,214
Net cash provided by operating activities	<u>871,278</u>
Cash flows from investing activities:	
Sales of investments	745,169
Purchases of investments	(965,866)
Net cash used in investing activities	<u>(220,697)</u>
Cash flows from financing activities:	
Payments on long-term debt	(250,000)
Net cash used by financing activities	<u>(250,000)</u>
Increase in cash and cash equivalents	400,581
Cash and cash equivalents, beginning of year	<u>231,720</u>
Cash and cash equivalents, end of year	<u>\$ 632,301</u>

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

The Foundation reports 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. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unrestricted net assets 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. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets 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

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, 2018.

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 unrestricted net assets unless a donor or law temporarily or permanently 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, 2018.

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.

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 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

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.

Recently Issued Accounting Guidance

In August 2016, the FASB issued ASU No. 2016-14, Not-For-Profit Entities-Presentation of Financial Statement of Not-for-Profit Entities (Topic 958). ASU No. 2016-14 requires not-for-profit entities to present on the statements of financial position amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes currently required. Not-for-profit entities are required to enhance disclosures regarding board designations and composition of net assets with donor restrictions. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, and/or interim periods within fiscal years, beginning after December 15, 2018. ASU No. 2016-14 is applied on a retrospective basis in the year in which the guidance is adopted. Early adoption is permitted. The Foundation is currently evaluating the impact of ASU No. 2016-14 adoption on its financial statements.

Restatement

During the year ended June 30, 2018, the Foundation’s management determined that in prior years, errors were made in the classification of net assets. This resulted in the restatement of beginning net assets as of July 1, 2017 as shown below:

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Net assets at July 1, 2017, as previously reported	\$ 916,360	\$ 2,986,119	\$ 6,524,676	\$ 10,427,155
Adjustment	<u>(753,948)</u>	<u>685,698</u>	<u>68,250</u>	<u>-</u>
Net assets at July 1, 2017, as restated	<u>\$ 162,412</u>	<u>\$ 3,671,817</u>	<u>\$ 6,592,926</u>	<u>\$ 10,427,155</u>

University of South Carolina Upstate Foundation
Notes to Financial Statements

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 2.5%. 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, 2018:

Due in one year or less	\$ 449,419
Due in one to five years	<u>1,551,126</u>
	2,000,545
Less discount	(93,575)
Less allowance for uncollectible accounts	-
Unconditional promises to give - net	<u>\$ 1,906,970</u>

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, 2018 noting no permanent impairment. Investments consist of the following at June 30, 2018:

Spartanburg County Foundation:	
Domestic equity	\$ 2,292,197
International equity	2,122,670
Flexible capital	3,246,687
Fixed income	2,047,944
Real assets	<u>1,088,926</u>
	10,798,424
Fidelity:	
Cash	28,149
Mutual funds	5,243
Common stock	<u>142,833</u>
	176,225
	<u>\$ 10,974,649</u>

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.

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, 2018:

	Fair value measurements at June 30, 2018 using:			
	Fair value at June 30, 2018	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	\$ 2,292,197	\$ -	\$ 2,078,343	\$ 213,854
International equity	2,122,670	-	843,849	1,278,821
Flexible capital	3,246,687	-	1,071,096	2,175,591
Fixed income	2,047,944	-	1,537,388	510,556
Real assets	1,088,926	-	537,791	551,135
Mutual funds	5,243	5,243	-	-
Common stocks	<u>142,833</u>	<u>142,833</u>	<u>-</u>	<u>-</u>
Total investments	<u>10,946,500</u>	<u>148,076</u>	<u>6,068,467</u>	<u>4,729,957</u>
Assets held in charitable remainder trust	<u>317,362</u>	<u>-</u>	<u>-</u>	<u>317,362</u>
	<u>\$ 11,263,862</u>	<u>\$ 148,076</u>	<u>\$ 6,068,467</u>	<u>\$ 5,047,319</u>

Investments, described in Note 3, are held at fair value and included in the table above except cash totaling \$28,149 at June 30, 2018, respectively, which are held by the investment manager for investment.

5. Long-Term Debt

Long-term debt at June 30, 2018 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.

\$ 1,500,000

Future maturities of long-term debt are as follows:

Year Ending June 30

2019

\$ 250,000

2020

1,250,000

\$ 1,500,000

6. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

Scholarships

\$ 502,181

Unconditional promises to give – time restriction

1,906,970

Other activities of the Foundation

2,247,781

\$ 4,656,932

7. Endowment Funds

The Foundation's endowment funds consist of eighty-three individual donor-restricted funds established for a variety of purposes, which includes permanently restricted 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as temporarily restricted net assets 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.

University of South Carolina Upstate Foundation
Notes to Financial Statements

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, 2018.

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.

Changes in endowment net assets by type of fund for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	²⁰¹⁸ Permanently Restricted	Total
Endowment net assets, June 30, 2017, as restated	\$ -	\$ 1,331,484	\$ 6,592,926	\$ 7,924,410
New gifts	-	-	88,906	88,906
Net revenues and gains	-	537,450	-	537,450
Reclassification	-	277,967	-	277,967
Endowment net assets, June 30, 2018	\$ -	\$ 2,146,901	\$ 6,681,832	\$ 8,828,733

8. Related Party Transaction

The following support was contributed by USC Upstate for the year ended June 30, 2018:

Salaries and fringe benefits	\$	130,623
Occupancy		4,132
Technology and software		<u>2,500</u>
	\$	<u>137,255</u>

During the year ended June 30, 2018 the Foundation provided USC Upstate support totaling \$120,224. The excess support USC Upstate provided of \$17,031 is recorded on the statement of financial position.

9. Contingencies and Commitments

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. 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. Subsequent Events

The Foundation evaluated the effect subsequent events would have on the financial statements through September 12, 2018, which is the date the financial statements were available to be issued.