

**UNIVERSITY OF SOUTH CAROLINA  
UPSTATE FOUNDATION**

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



**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the University of South Carolina Upstate Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 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.

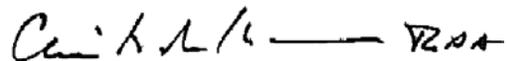
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of South Carolina Upstate Foundation 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.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The executive director's management letter and the list of board of directors are presented for purposes of additional analysis and are not a required part of the financial statements. The executive director's management letter and the list of board of directors have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink, appearing to read "Cynthia L. [unclear] CPA". The signature is written in a cursive style with a horizontal line extending from the end.

Gaffney, South Carolina  
September 8, 2017

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
 Statement of Financial Position  
 June 30, 2017

**ASSETS**

Cash and Cash Equivalents	\$ 231,720
Unconditional Promises to Give - Net	1,755,936
Investments	10,083,736
Assets Held in Charitable Remainder Trust & Beneficial Interests	197,782
Property and Equipment - Net	<u>27,300</u>
Total Assets	<u><u>\$ 12,296,474</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts Payable	\$ 5,453
Liability Under Charitable Remainder Trusts	113,866
Long-Term Debt	<u>1,750,000</u>
Total Liabilities	<u><u>1,869,319</u></u>
Net Assets:	
Unrestricted	916,360
Temporarily Restricted	2,986,119
Permanently Restricted	<u>6,524,676</u>
Total Net Assets	<u><u>10,427,155</u></u>
Total Liabilities and Net Assets	<u><u>\$ 12,296,474</u></u>

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

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
 Statement of Activities  
 June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues, Gains and Other Support:				
Contributions	\$ 76,850	624,073	161,750	862,673
In-Kind Contributions	111,813	-	-	111,813
Earned Income - Contributions	3,385	103,462	-	106,847
Unrealized Gain (Loss) on Investments	804,319	-	-	804,319
Investment Income	105,144	4	-	105,148
Change in Value of Charitable Remainder Trust	-	(54,287)	-	(54,287)
Administrative Fee	105,227	-	-	105,227
Satisfaction of Program Restrictions	956,478	(956,478)	-	-
Total Operating Revenues, Gains and Other Support	\$ 2,163,216	(283,226)	161,750	2,041,740
Operating Expenses:				
Scholarships	\$ 141,892	-	-	141,892
Administrative Fee	105,226	-	-	105,226
Other Support Provided USC Upstate	85,561	-	-	85,561
USC Upstate Funded	111,813	-	-	111,813
Supporting Services	655,148	-	-	655,148
Interest Expense	48,211	-	-	48,211
Depreciation and Amortization	1,950	-	-	1,950
Bad Debts	1,175	-	-	1,175
Fundraising Expenses	771	-	-	771
Bank and Bond Device Fees	12,135	-	-	12,135
Foundation Operating Expenses	99,873	-	-	99,873
Total Operating Expenses	1,263,755	-	-	1,263,755
Change in Net Assets from Operations	899,461	(283,226)	161,750	777,985
Net Assets, Beginning of Year, as Previously Stated	99,074	3,269,345	6,362,926	9,731,345
Prior Period Adjustment	(82,175)	-	-	(82,175)
Net Assets, Beginning of Year, as Restated	16,899	3,269,345	6,362,926	9,649,170
Net Assets, End of Year	\$ 916,360	2,986,119	6,524,676	10,427,155

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

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
 Statement of Cash Flows  
 June 30, 2017

Cash Flows Provided (Used) by Operating Activities:	
Cash Received from Contributors, Members and Others	\$ 1,031,204
Cash Paid to Suppliers, Employees and USC Upstate	(991,102)
Interest and Dividends Received	105,148
Interest Paid	(48,211)
Total Net Cash Provided (Used) by Operating Activities	97,039
Cash Flows Provided (Used) by Investing Activities:	
Purchase of Investments	(586,721)
Total Net Cash Provided (Used) by Investing Activities	(586,721)
Cash Flows Provided (Used) by Financing Activities:	
Endowment Contributions - Permanently Restricted	161,750
Payments on Long-Term Debt	(250,000)
Total Net Cash Provided (Used) by Financing Activities	(88,250)
Net Increase(Decrease) in Cash and Cash Equivalents	(401,432)
Cash and Cash Equivalents at Beginning of Year	633,152
Cash and Cash Equivalents at End of Year	\$ 231,720

During the year Foundation investments experienced \$804,319 in unrealized gains in their funds invested with the Spartanburg County Foundation and Fidelity Investments. In addition, the University provided a total of \$111,813 in support in the form of personnel costs, office space and technology support during the year.

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

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Statement of Cash Flows, Continued  
June 30, 2017

Reconciliation of Change in Net Assets to Net Cash	
Provided (Used) by Operating Activities:	
Change in Net Assets	\$ 777,985
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided (Used) Used by Operations Activities:	
Net Unrealized (Gains) Losses on Investments	(804,319)
Depreciation	1,950
Contributions Restricted for Long-Term Investment	(161,750)
(Increase) Decrease in Assets:	
Accounts Receivable and Unconditional Promises to Give	223,433
Assets Held in Charitable Remainder Trusts	54,287
Increase (Decrease) in Liabilities:	
Accounts Payable	<u>5,453</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 97,039</u>

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

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Purpose**

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 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.

**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.

**UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

**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 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.

**Property and Equipment**

Property and equipment 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 consist of an investment in a life insurance policy and a receivable from USC Upstate.

**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 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.

## THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION

### Notes to Financial Statements, Continued

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

##### **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.

##### **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.

##### **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.

#### **NOTE 2 – FAIR VALUE MEASUREMENTS**

The Foundation's assets and liabilities are reported at fair value in the accompanying statements of financial position using fair value measurements.

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.) and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

##### *Level 1 Fair Value Measurements*

The fair values of the mutual funds and common stock are based on quoted market prices.

##### *Level 2 Fair Value Measurements*

The certificates of deposits are based on fair values as determined by the financial institutions.

The investments at Spartanburg County Foundation are based on fair values as determined by the Foundation and consist of mutual funds, comingled funds, certificates of deposit, partnerships and other entities.

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**

Notes to Financial Statements, Continued

**NOTE 2 – FAIR VALUE MEASUREMENTS**, Continued

*Level 3 Fair Value Measurements*

The unconditional promises to give are not actively traded and significant other observable inputs are not available. The fair value for unconditional promises to give is based on outstanding pledges adjusted to present value using a discount rate of 1.75%. The following information provides further details of the Level 3 fair value measurements.

<u>Significant Unobservable Inputs (Level 3)</u>	<u>Unconditional Promises to Give</u>
Beginning Balance	\$ 2,306,450
New Pledges	81,009
Payments Received	(255,000)
Bad Debts	(261,450)
Discount to Present Value	<u>(115,073)</u>
Ending Balance	<u>\$ 1,755,936</u>

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair market value due to the short-term maturities of these instruments.

**NOTE 3 – UNCONDITIONAL PROMISES TO GIVE**

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

<u>Unconditional Promises to Give</u>	
Receivable - Less than 1 Year	\$ 339,821
Receivable - 1 to 5 Years	<u>1,531,188</u>
	1,871,009
Less Discount to Present Value at 1.75%	(115,073)
Allowance for Uncollectible Amounts	<u>-</u>
Total Unconditional Promises to Give - Net	<u>\$ 1,755,936</u>

Allowance for uncollectable amounts for the year ended June 30, 2017 is \$-0-.

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 4 – INVESTMENTS**

Investments are stated at market value. Realized and unrealized gains and losses are reflected in the statement of activities. Management has evaluated investments values as of June 30, 2017 noting no permanent impairment of investment values. Investments held by the Foundation as of June 30 follow:

Spartanburg County Foundation	
Global Equity	\$ 4,135,882
Flexible Capital	2,916,151
Fixed Income	1,925,375
Real Assets	<u>936,873</u>
	9,914,281
Fidelity	
Common Stock	<u>169,455</u>
Total Investments	<u><u>\$ 10,083,736</u></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.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment of the Foundation as of June 30 follow:

Equipment	\$ 39,000
Less Accumulated Depreciation	<u>(11,700)</u>
Total	<u><u>\$ 27,300</u></u>

Depreciation expense for the year ended June 30, 2017 was \$1,950.

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 6 – LONG-TERM DEBT**

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

The Foundation borrowed \$3,500,000 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 \$500,000 with a final maturity in 2024. This amortized loan payable was converted from the line of credit.

\$ 1,750,000

Future maturities of long-term debt are as follows:

As of June 30, 2017:

Year Ending June 30	Amount Due
2018	\$ 250,000
2019	250,000
2020	250,000
2021	250,000
2022	250,000
2023-2024	500,000
Total	<u>\$ 1,750,000</u>

Total interest paid on long-term debt for the year ended June 30, 2017 was \$48,211.

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

Temporarily Restricted Net Assets		
Scholarships	\$	796,125
Other Activities of the Foundation		2,189,994
Total	\$	2,986,119

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

**NOTE 8 – OPERATING LEASE**

*As Lessor*

The Foundation leases the following:

- 15 acres of land, known as the Gramling property, to USC Upstate for parking and Rotary Peace Park facilities for \$1, renewable annually. This property was transferred to the University during the year.

**NOTE 9 – UNIVERSITY SUPPORT**

The following was funded by the USC Upstate:

Salaries and Fringe Benefits	\$	104,403
Occupancy		4,410
Technology / Software		3,000
Total	\$	111,813

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

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 10 – ENDOWMENT**

The Foundation's endowment consists of 83 individual funds established for a variety of purposes. Its endowment includes permanent endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors recognizes and supports the legal requirements to preserve the amount explicitly given by the donor. Therefore, the Foundation classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and subsequent gifts to the endowment.

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ (4,569)	645,786	6,362,926	7,004,143
New Gifts	-	-	161,750	161,750
Net Revenues and Gains	700,615	-	-	700,615
Transfer to Spendable	(171,956)	-	-	(171,956)
Net Assets - End of Year	<u>\$ 524,090</u>	<u>645,786</u>	<u>6,524,676</u>	<u>7,694,552</u>

The Foundation has a policy that endowment funds are not available for expenditures. Instead, each endowed fund has a companion restricted fund that can be spent for the purpose specified by the endowment agreement. Funding for these "spendable" accounts are obtained from distribution from income generated from permanently restricted investments, allocations from unrestricted funds, or by contributions.

**Calculation Method**

Spending Allocation

The amount of funds allocated for expenditure for the purposes for which an Endowed Fund was established ("Spending Allocation") is reviewed annually and calculated based on the prior 12-quarter rolling average Unitized Market Value of the primary managed investment portfolio (currently Spartanburg County Foundation) 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%.

The Spending Allocation will be transferred to the Endowed Fund spending account in equal semi-annual installments on the first day of January and the first day of July in the fiscal year following the Calculation Date.

Endowment Administrative Fee

The amount of funds allocated for expenditure for Foundation administrative expenses ("Endowment Administrative Fee") will be reviewed annually and calculated based on the prior twelve (12) quarter rolling average of the Unitized Market Value of the primary managed investment portfolio (currently Spartanburg County Foundation) multiplied by the number of units held by each Endowed Fund on the Calculation Date. The full Endowment Administrative Fee, as calculated, will be transferred to the Foundation's operating funds in equal semi-annual installments on the first day of January and the first day of July in the fiscal year following the Calculation Date.

The Foundation has adopted an investment policy that attempts to provide a predictable stream of returns on its investment pool. The policy specifies a balanced portfolio consisting of 30% domestic equity, 35% international equity, 15% alternative investments and 20% fixed income investments.

**THE UNIVERSITY OF SOUTH CAROLINA UPSTATE FOUNDATION**  
Notes to Financial Statements, Continued

**NOTE 11 – CONTINGENCIES / COMMITMENTS**

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.

The Foundation makes grants to the University and payments as funds are expended and invoiced by the University. All invoices were paid as of June 30, 2017. At June 30, 2017 there were no outstanding commitments to the University. All grants are conditional and are for various projects and programs.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

During the prior fiscal year, on May 10, 2016, the property known as the Rampey Center, consisting of a building and 1.44 acres, along with an associated lease, was conveyed to CPF Properties II, LLC, which was then sold to the USC Foundation. This property reflected a cost of \$365,221 and related accumulated depreciation of \$283,046 with a net book value of \$82,175. This transaction was not properly recorded during the prior fiscal year, and is being reflected in these financial statements as a prior period adjustment to beginning unrestricted net assets.

**NOTE 13 – 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.