

UNIVERSITY OF SOUTH CAROLINA  
EDUCATIONAL FOUNDATION

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AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEARS ENDED JUNE 30, 2018 AND 2017

WITH

INDEPENDENT AUDITORS' REPORT

UNIVERSITY OF SOUTH CAROLINA  
EDUCATIONAL FOUNDATION

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AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEARS ENDED JUNE 30, 2018 AND 2017

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## INDEPENDENT AUDITORS' REPORT

Board of Directors

University of South Carolina Educational Foundation

1027 Barnwell Street

Columbia, South Carolina 29208

We have audited the accompanying financial statements of the University of South Carolina Educational Foundation (the "Foundation"), a not-for-profit component unit of the University of South Carolina, which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and cash flows for the years 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.

### *Auditor's 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 audit 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 auditor's 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.

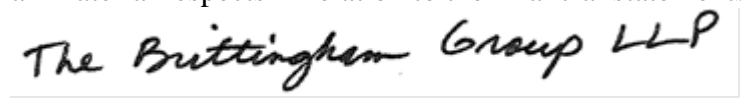
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina Educational Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedules of functional expenses on pages 30 (2018) and 31 (2017) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "The Brittingham Group LLP". The signature is written in a cursive style and is contained within a thin black rectangular border.

West Columbia, South Carolina  
September 24, 2018

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 7,533,499	\$ 10,796,406
Accounts receivable:		
University of South Carolina	1,171,257	1,349,494
University of South Carolina Development Foundation	4,537,040	4,250,000
Other (net of allowance for doubtful accounts at \$14,241 at June 30, 2018 and 2017)	67,530	65,693
Notes receivable:		
University of South Carolina Alumni Association	5,933,004	5,933,004
Collateral assignment split dollar arrangement	4,176,327	528,233
Contributions receivable, net	30,667,642	38,517,150
Investments	476,490,338	435,997,290
Assets held in trust by others	26,357,904	27,182,128
Assets held in trust by the Foundation	684,055	830,420
Other assets	251	251
Fixed assets, net	1,622,747	37,131
<b>Total assets</b>	<b>\$ 559,241,594</b>	<b>\$ 525,487,200</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable:		
University of South Carolina	\$ 8,313,374	\$ 6,754,352
Other	2,722,529	1,548,557
Accrued interest payable:		
University of South Carolina Alumni Association	-	32,233
University of South Carolina Business Partnership Foundation	209,074	173,455
Funds held for others:		
Educational Foundation of USC Lancaster	9,233,029	8,649,976
University of South Carolina Alumni Association	2,196,495	-
Other	182,400	159,947
Annuity obligations	1,045,494	1,170,497
Notes payable:		
University of South Carolina Alumni Association	-	1,019,356
University of South Carolina Business Partnership Foundation	4,000,000	4,000,000
Other	5,933,004	3,933,004
<b>Total liabilities</b>	<b>33,835,399</b>	<b>27,441,377</b>
Contingencies ( <i>Note 9</i> )		
Net assets:		
Unrestricted:		
Undesignated	102,118,023	95,266,765
Designated - quasi-endowments	8,937,531	7,476,622
Temporarily restricted:		
Held by the Foundation	96,258,981	85,873,066
Held in trust by others	24,391,752	25,215,976
Permanently restricted:		
Held by the Foundation	291,733,756	282,247,242
Held in trust by others	1,966,152	1,966,152
<b>Total net assets</b>	<b>525,406,195</b>	<b>498,045,823</b>
<b>Total liabilities and net assets</b>	<b>\$ 559,241,594</b>	<b>\$ 525,487,200</b>

See accompanying notes.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>				
Contributions:				
Received	\$ 28,488,808	\$ 9,534,577	\$ 5,897,765	\$ 43,921,150
Change in pledges receivable	-	(7,849,508)	-	(7,849,508)
Dividends and interest	3,756,331	3,117,041	-	6,873,372
Net gains (losses) on investments	9,498,794	22,440,387	-	31,939,181
Guaranty fee - USC Development Foundation	150,000	-	-	150,000
Other receipts	865,793	-	-	865,793
Net assets released from restrictions:				
Satisfaction of program restrictions	2,424,698	(2,502,655)	77,957	-
Expiration of time restrictions	11,667,359	(15,178,151)	3,510,792	-
<b>Total revenue, gains and other support</b>	<b>56,851,783</b>	<b>9,561,691</b>	<b>9,486,514</b>	<b>75,899,988</b>
<b>Expenses</b>				
Scholarships, tuition reimbursements and awards	13,060,731	-	-	13,060,731
Salary supplements and benefits	5,836,740	-	-	5,836,740
Support and operational costs	4,794,295	-	-	4,794,295
Fundraising and advancement	1,125,424	-	-	1,125,424
Other program services	23,722,426	-	-	23,722,426
<b>Total expenses</b>	<b>48,539,616</b>	<b>-</b>	<b>-</b>	<b>48,539,616</b>
Changes in net assets	8,312,167	9,561,691	9,486,514	27,360,372
Net assets, beginning of year	102,743,387	111,089,042	284,213,394	498,045,823
Net assets, end of year	<u>\$ 111,055,554</u>	<u>\$ 120,650,733</u>	<u>\$ 293,699,908</u>	<u>\$ 525,406,195</u>

See accompanying notes.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>				
Contributions:				
Received	\$ 48,518,194	\$ 9,303,365	\$ 14,185,191	\$ 72,006,750
Change in pledges receivable	-	(6,307,369)	-	(6,307,369)
Dividends and interest	3,452,425	3,115,782	-	6,568,207
Net gains (losses) on investments	18,402,693	27,282,570	-	45,685,263
Guaranty fee - USC Development Foundation	250,000	-	-	250,000
Other receipts	1,149,102	-	-	1,149,102
Net assets released from restrictions:				
Satisfaction of program restrictions	10,421,120	(55,064,442)	44,643,322	-
Expiration of time restrictions	8,276,032	(8,454,333)	178,301	-
Total revenue, gains and other support	<u>90,469,566</u>	<u>(30,124,427)</u>	<u>59,006,814</u>	<u>119,351,953</u>
<b>Expenses</b>				
Scholarships, tuition reimbursements and awards	11,632,566	-	-	11,632,566
Salary supplements and benefits	5,370,058	-	-	5,370,058
Support and operational costs	3,804,738	-	-	3,804,738
Fundraising and advancement	1,040,599	-	-	1,040,599
Other program services	30,496,462	-	-	30,496,462
Total expenses	<u>52,344,423</u>	<u>-</u>	<u>-</u>	<u>52,344,423</u>
Changes in net assets	38,125,143	(30,124,427)	59,006,814	67,007,530
Net assets, beginning of year	64,618,244	141,213,469	225,206,580	431,038,293
Net assets, end of year	<u>\$ 102,743,387</u>	<u>\$ 111,089,042</u>	<u>\$ 284,213,394</u>	<u>\$ 498,045,823</u>

See accompanying notes.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 27,360,372	\$ 67,007,530
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	122,712	6,985
Net (gains)/losses on investments	(31,939,181)	(45,685,263)
Bad debt expense	-	5,000
Actuarial gain on annuity obligations	(183,618)	(78,573)
Contributions restricted to endowment:		
Temporarily restricted	(3,283,618)	(4,273,506)
Permanently restricted	(5,897,765)	(14,185,191)
Changes in certain assets and liabilities:		
Accounts receivable	(110,640)	(2,093,892)
Note receivable	(3,648,094)	(32,252)
Contributions receivable	7,849,508	6,307,369
Accounts payable	2,732,992	4,344,894
Interest expense not paid (or paid in excess of amount earned)	3,385	52,807
Funds held for others	2,802,001	933,467
Net cash flows from operating activities	<u>(4,191,946)</u>	<u>12,309,375</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(1,708,328)	(44,116)
Proceeds from sale of investments	43,411,211	99,663,650
Purchase of investments	(51,965,076)	(148,175,965)
Net cash flows from investing activities	<u>(10,262,193)</u>	<u>(48,556,431)</u>

(CONTINUED)



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

(CONTINUED)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for investment in endowment:		
Temporarily restricted	3,283,618	4,273,506
Permanently restricted	5,897,765	14,185,191
Other financing activities:		
Proceeds from notes payable	2,000,000	77,377
Payments on notes payable	(1,019,356)	(16,000,000)
Changes in split interest agreements	824,224	35,875,242
Changes in annuity and trust obligations	204,981	(74,109)
Net cash flows from financing activities	<u>11,191,232</u>	<u>38,337,207</u>
Net change in cash and cash equivalents	(3,262,907)	2,090,151
Cash and cash equivalents at beginning of year	<u>10,796,406</u>	<u>8,706,255</u>
Cash and cash equivalents at end of year	<u>\$ 7,533,499</u>	<u>\$ 10,796,406</u>
<b>Supplemental data:</b>		
<b>Noncash investing and financing activities:</b>		
Gifts of real estate and equipment	\$ 3,000,000	\$ 780,000
<b>Other disclosures:</b>		
Interest paid	\$ 195,588	\$ 295,909

See accompanying notes.

# UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The University of South Carolina Educational Foundation (the “Foundation”) is a South Carolina eleemosynary corporation operating for the benefit and support of the University of South Carolina (the “University”). Its objectives include the establishment and implementation of long range fundraising programs to assist in the expansion and improvement of the educational functions of the University. Because the funds held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

The financial statements of the Foundation are presented in accordance with accounting principles generally accepted in the United States of America and are prepared on the accrual basis of accounting. Consequently, the net assets of the Foundation are reported in the following three classifications:

#### Unrestricted

The Foundation reports that part of its net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations as unrestricted net assets. The Foundation’s governing board has internally earmarked portions of its unrestricted net assets as designated for quasi endowments (board designated). The principal of such funds is invested to provide income for operations.

#### Temporarily Restricted

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets or permanently restricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. All contributions receivable are considered temporarily restricted until received by the Foundation. Once the funds have been received, they are then reclassified to other net asset classifications.

#### Permanently Restricted

Permanently restricted net assets consist of that part of the Foundation’s net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Foundation. Presently, these net assets represent the permanent endowed funds established by donors for the benefit of the Foundation’s programs. Gifts and contributions designated by such trust agreements are permanently invested, with the income derived therefrom being accumulated or expended in accordance with the donor-imposed restrictions.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**1. Summary of Significant Accounting Policies (Continued)**

Other significant accounting policies are as follows:

Revenue, Gains and Other Support, and Expenses and Losses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets.

A contribution is deemed to have been received when the cash or other assets including securities, land, buildings, use of facilities, materials and supplies, intangible assets, services or unconditional promise to give such items in the future is received. An unconditional promise to give is a promise which is not dependent on the occurrence of a specified future and uncertain event to bind the promisor.

The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated an undetermined number of hours to the Foundation's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services (which include accounting and legal services) would be reflected in the statement of activities at their fair value. No donated professional services were received during the year.

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit, money market, and other deposit accounts with financial institutions. The Foundation considers all cash and highly liquid debt securities with an initial maturity of three months or less not held in its investment pools to be cash equivalents.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**1. Summary of Significant Accounting Policies (Continued)**

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions. At June 30, 2018, the bank balance of cash and cash equivalents totaled \$8,430,524, of which \$6,913,435 was not covered by federal deposit insurance. The Foundation has not experienced any losses on its cash equivalents. Management monitors the risk of exposure to loss through monitoring the performance of the financial institutions through publicly available rating agencies.

Management believes that the Foundation's investments do not represent significant concentrations of market risk because the Foundation's investment portfolio is adequately diversified among issuers and management believes that the Foundation has the ability to hold its investment portfolio during periods of temporary market declines.

Contributions Receivable

The Foundation has adopted the provisions of the ASC for the accounting of contributions received and contributions made. Under the ASC, contributions are required to be recognized when the donor makes a promise to give that, in substance, is unconditional. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. Unconditional promises to give (pledges) are stated net of an allowance for doubtful accounts. Pledges are periodically evaluated for collectability based on management's assessment of the collectability of each pledge. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using discounted rates applicable to the years in which the promises are to be received.

Investments

Investments consist of money market funds, certificates of deposits, marketable equity and debt securities carried at fair value and alternative investments (including hedge funds and private equity partnerships), which are carried at capital account value. Cash and money market funds held in the investment portfolio are a part of the diversification strategies established by the investment policy. Management determines the portion of the investment portfolio to be held in money market funds based on projected cash needs by beneficiaries. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is specifically restricted by donor or law. Securities or other investments donated are recorded at their market value at the date of the gift. Donated life insurance policies are carried at their current respective cash surrender values. Property held for sale is measured at the lower of cost or market.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**1. Summary of Significant Accounting Policies (Continued)**

Assets Held in Trust

Assets held in trust consist of split-interest agreements that name the Foundation as a beneficiary.

By the Foundation

Trust agreements that name the Foundation as trustee are held in trust accounts that are measured at fair value in the statement of financial position. Changes in fair value are included in the statement of activities as changes in contributions received in the temporarily restricted net assets unless the income or loss is permanently restricted by the donor. Distributions from the trust accounts are recognized as expenses in the statement of activities. Distributions to the Foundation during the life of the agreement are recognized as reductions in the investment earnings in the appropriate net asset classification in accordance with the donor's wishes.

By Others

Trust agreements under which the Foundation has no control over the investment of assets are valued using multiple methods. The Charitable Lead Annuity Trusts (CLAT) held by others are valued using the present value of future cash flows. The Charitable Remainder Uni-Trusts (CRUT) held by others (majority of held by others) are valued at the fair value of the underlying investments held as reported by the custodians. The discount rate used to determine the present value is determined at the date of the gift and remains constant throughout the life of the trust. Changes in the value of the assets are included in the statement of activities as increases and decreases to contributions received. Distributions to the Foundation during the life of the agreement are recognized as contributions received in the appropriate net asset classification in accordance with the donor's wishes.

Annuity Obligations

The amounts reported as annuity obligations represent amounts due to donors and others under various split-interest agreements and trust agreements. The related assets are reported together with other assets (investments or assets held in trust) of the Foundation, as there is no legal requirement to maintain these separately. Discount rates and actuarial assumptions vary by type of agreement.

Other information relating to these split-interest agreements is as follows:

	<u>2018</u>	<u>2017</u>
Contributions	\$ 96,795	\$ 207,000
Actuarial gain	\$ 183,618	\$ 78,573
Payments made	\$ (329,578)	\$ (356,372)

The Foundation uses a reinsurance policy to provide amounts to be paid in the future for some of its annuity obligations. The amounts to be provided under the reinsurance agreement are netted against annuity obligations on the Statement of Financial Position and are valued at \$572,621 and \$631,237 as of June 30, 2018 and 2017, respectively.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**1. Summary of Significant Accounting Policies (Continued)**

Fixed Assets

Fixed asset purchases are recorded at cost. Donated fixed assets are recorded at fair value on the date of the gift. Leasehold improvements consist of enhancements paid for by a tenant and are amortized over the life of the lease. Assets are capitalized if the value at acquisition exceeds \$5,000 and the estimated useful life exceeds three years. Depreciation is provided over the estimated useful life computed on the straight-line method.

Funds Held for Others

Funds held for others consist of funds held for investment purposes from affiliated entities, primarily other Foundations within the University system.

Collateral assignment split dollar arrangement

Collateral assignment split dollar arrangement consists of amounts loaned for the purchase of split-dollar life insurance policies which are owned and controlled by the participants in the program. The receivable amount is limited to the lessor of the original loan plus interest accrued at the applicable federal rate or the cash surrender value of the life insurance policies.

Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). However, it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending June 30, 2018, 2017, 2016, and 2015 are still open to audit for both federal and state purposes. The Foundation is not classified as a private foundation.

Expense Allocation

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities. Certain shared costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain items have been reclassified from prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used in the determination of allowance for doubtful accounts, discount rates used in net present value calculations, and the useful lives of property and equipment. Present value calculations are used in the valuation of contributions receivable, funds held in trust, and annuity liabilities.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**1. Summary of Significant Accounting Policies (Continued)**

Recently Issued Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. The standard’s core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Foundation is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU provides for a variety of changes to the presentation of the financial statements of not-for-profit entities, including changing from three classes of net assets to two classes of net assets, enhancing disclosure requirements related to liquidity concerns and endowment management, a requirement to present expenses classified by both their nature and their function and other changes to presentation and disclosure. This standard is effective for fiscal years beginning after December 15, 2017. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the calendar year ending December 31, 2020. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Foundation’s financial position, results of operations or cash flows.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**2. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each classification within the financial statements:

- Contributions receivable - The fair value of promises to give that are due in one year or more is estimated by discounting the estimated future cash flows using an estimate of the Foundation’s earnings rate.
- Investments - The fair value of debt and equity security investments are estimated based on quoted market prices when available. For other investments for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. It was not practical to estimate the fair value of the alternative investments. These investments are carried at the capital account value.
- Notes receivable – Fair value approximates carrying value due to the unknown maturity of these items.
- Assets Held in Trust – The fair value is estimated using multiple methods. The CLAT’s held by others are valued using the present value of future cash flows. The CRUT’s held by others (majority of held by others) are valued at the fair value of the investments held as reported by the custodian.
- Annuity obligations - These liabilities are carried at actuarially determined present value, which approximate fair value.
- Notes payable - Fair value approximates carrying value due to the expected short maturity of these financial instruments.

When quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instrument.

The following levels of input for measurement of fair value have been defined to assist the user in evaluating the fair value disclosure information:

- |         |  |
|---------|--|
| Level 1 | Quoted prices in an active market for identical assets or liabilities.   |
| Level 2 | Other quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active for transactions or availability of information, other observable sources of information, and information derived principally from or corroborated from observable sources of information. |
| Level 3 | Unobservable sources of information, primarily management’s assumptions about potential market participants.   |



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**2. Fair Value of Financial Instruments (Continued)**

The estimated fair values of the Foundation's financial instruments are as follows and are included in the statement of financial position under similar descriptions for both June 30, 2018 and 2017:

<b>Description</b>	<b>June 30, 2018</b>	<b>Fair Value Measurements at Reporting Date Using</b>		
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Financial assets requiring fair value disclosure:				
Investments	\$ 476,490,338	\$ 423,930,948	\$ -	\$ 52,559,390
Assets held in trust by others	26,357,904	-	-	26,357,904
Assets held in trust by the Foundation	684,055	684,055	-	-
Notes receivable	10,109,331	-	-	10,109,331
Contributions receivable	30,667,642	-	-	30,667,642
	<u>\$ 544,309,270</u>	<u>\$ 424,615,003</u>	<u>\$ -</u>	<u>\$ 119,694,267</u>
Financial liabilities requiring fair value disclosure:				
Annuity obligations	\$ (1,045,494)	\$ -	\$ -	\$ (1,045,494)
Notes payable	(9,933,004)	-	-	(9,933,004)
	<u>\$ (10,978,498)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,978,498)</u>

<b>Description</b>	<b>June 30, 2017</b>	<b>Fair Value Measurements at Reporting Date Using</b>		
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Financial assets requiring fair value disclosure:				
Investments	\$ 435,997,290	\$ 386,565,200	\$ -	\$ 49,432,090
Assets held in trust by others	27,182,128	-	-	27,182,128
Assets held in trust by the Foundation	830,420	830,420	-	-
Notes receivable	6,461,237	-	-	6,461,237
Contributions receivable	38,517,150	-	-	38,517,150
	<u>\$ 508,988,225</u>	<u>\$ 387,395,620</u>	<u>\$ -</u>	<u>\$ 121,592,605</u>
Financial liabilities requiring fair value disclosure:				
Annuity obligations	\$ (1,170,497)	\$ -	\$ -	\$ (1,170,497)
Notes payable	(8,952,360)	-	-	(8,952,360)
	<u>\$ (10,122,857)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,122,857)</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Fair Value of Financial Instruments (Continued)

Changes in *Level 3* fair value measurements were as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Investments			Assets Held				
	Hedge Funds	Private Equity Partnership	Other Investments	Notes Receivable	in Trust by Others	Contributions Receivable	Annuity Obligations	Notes Payable
Ending balance-June 30, 2016	\$ 33,083,300	\$ 7,285,893	\$ -	\$ 6,428,985	\$ 58,442,849	\$ 44,824,519	\$ (1,191,583)	\$ (24,874,983)
Total dividends included								
in changes in net assets	-	711,370	-	-	-	-	-	-
Total gains or losses (realized/unrealized) included								
in changes in net assets	2,176,827	968,181	-	-	-	-	-	-
Purchases, issuances, and settlements	7,048,382	2,235,801	-	-	-	-	-	-
Return of capital	-	(1,113,007)	-	-	-	-	-	-
Fees	-	(244,606)	-	-	-	-	-	-
Cash out of dividend/realized gain	-	(2,720,051)	-	-	-	-	-	-
Change in assets held in trust by others	-	-	-	-	(31,260,721)	-	-	-
Change in notes receivable	-	-	-	32,252	-	-	-	-
Change in contributions receivable	-	-	-	-	-	(6,307,369)	-	-
Change in annuity obligations	-	-	-	-	-	-	21,086	-
Change in notes payable	-	-	-	-	-	-	-	15,922,623
Ending balance-June 30, 2017	42,308,509	7,123,581	-	6,461,237	27,182,128	38,517,150	(1,170,497)	(8,952,360)
Total dividends included								
in changes in net assets	28,756	-	-	-	-	-	-	-
Total gains or losses (realized/unrealized) included								
in changes in net assets	2,659,917	703,902	-	-	-	-	-	-
Purchases, issuances, and settlements	-	1,149,973	-	-	-	-	-	-
Return of capital	(291,146)	(1,490,572)	-	-	-	-	-	-
Fees	(853,780)	(33,554)	-	-	-	-	-	-
Cash out of dividend/realized gain	-	53,804	-	-	-	-	-	-
Change in other investments	-	-	1,200,000	-	-	-	-	-
Change in assets held in trust by others	-	-	-	-	(824,224)	-	-	-
Change in notes receivable	-	-	-	3,648,094	-	-	-	-
Change in contributions receivable	-	-	-	-	-	(7,849,508)	-	-
Change in annuity obligations	-	-	-	-	-	-	125,003	-
Change in notes payable	-	-	-	-	-	-	-	(980,644)
Ending balance-June 30, 2018	\$ 43,852,256	\$ 7,507,134	\$ 1,200,000	\$ 10,109,331	\$ 26,357,904	\$ 30,667,642	\$ (1,045,494)	\$ (9,933,004)
The amount of total gains or losses for the year ended June 30, 2018 included in changes in net assets attributable to the change in gains or losses relating to assets still held at June 30, 2018	\$ 2,638,041	\$ 724,152	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**2. Fair Value of Financial Instruments (Continued)**

The investments reported as level 3 methods for determining fair value consist of Partnerships and Hedge Funds for which the ownership terms and conditions restrict the marketability of the investments resulting in the valuation method previously described. The following describes the restrictions to assist in the assessment of the investment holdings:

Hedge Funds – The Foundation holds ownership shares in several hedge funds with investment strategies including fund to fund long/short equity managers. The funds' requirements for liquidity/withdrawals range from 15 days written notice for monthly liquidation to 95 days written notice for quarterly liquidation and contributions/purchases are accepted either monthly, quarterly, or annually with some having a minimum deposit/withdrawal up to \$250,000. Management believes that the investment strategies employed and availability of other Foundation resources allow the Foundation to be unaffected by the liquidity restrictions.

Private Equity Partnerships – The Foundation holds ownership positions in four partnerships with investment strategies of investing in private equity (distressed companies) and private energy funds. The Foundation cannot redeem its investment in these funds until the final liquidation of the partnerships. The distressed equities fund is in the late stage of its life and has an estimated one (1) year left until the majority of the capital has been returned. This partnership is valued at \$1,446,172 at June 30, 2018. The amount of unfunded commitments related to this investment is \$238,113. One private energy fund is in the early stage of its life and has an estimated four and one-half (4.5) years left until the majority of the capital has been returned. This partnership is valued at \$1,191,510 at June 30, 2018. The amount of unfunded commitments related to this investment is \$1,049,540. The other private energy fund is in the early stage of its life and has an estimated six and one-half (6.5) years left until the majority of the capital has been returned. This partnership is valued at \$3,236,969 at June 30, 2018. The amount of unfunded commitments is \$554,492. The final private energy fund is in the early stage of its life and has an estimated six and one-half (6.5) years left until the majority of the capital has been returned. This partnership is valued at \$1,632,483 at June 30, 2018. The amount of unfunded commitments related to this investment is \$1,416,022.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Investments**

The following summarizes the fair values of investments by investment pool at June 30, 2018 and 2017:

	<b>Years Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Readily Marketable	\$ 10,582,854	\$ 18,553,282
University Foundations Pool	449,712,700	412,385,908
Other Donor - Restricted		
Endowments - Not Readily		
Marketable	16,194,784	5,058,100
	<u>\$ 476,490,338</u>	<u>\$ 435,997,290</u>

Investments are composed of the following:

	<b>Years Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Money Funds	\$ 4,726,416	\$ 3,781,173
Fixed Income Mutual Funds	70,547,823	71,894,608
Stocks and Equity Mutual Funds	339,273,855	305,831,320
Real Estate	3,868,527	868,527
Other/Alternative Investments	58,073,717	53,621,662
	<u>\$ 476,490,338</u>	<u>\$ 435,997,290</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Investments (Continued)**

The Foundation's participation in a pooling of investments program with other foundations of the University, collectively known as the University Foundations, consisted of the following:

	<b>June 30, 2018</b>	
	<b>University Foundations Pooled Investments</b>	<b>Portion Owned by USC Educational Foundation</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Investment Pools:		
Money Funds	\$ 3,113,688	\$ 2,508,254
Stocks	218,246,848	173,176,077
Equity Mutual Funds	221,116,885	166,055,085
Fixed Income Mutual Funds	66,415,633	56,613,894
Other/Alternative Investments	67,545,982	51,359,390
Total Investment Pools	<u>\$ 576,439,036</u>	<u>\$ 449,712,700</u>

	<b>June 30, 2017</b>	
	<b>University Foundations Pooled Investments</b>	<b>Portion Owned by USC Educational Foundation</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Investment Pools:		
Money Funds	\$ 4,824,279	\$ 3,780,217
Stocks	206,359,847	160,971,272
Equity Mutual Funds	171,852,983	142,060,398
Fixed Income Mutual Funds	65,961,349	56,141,932
Other/Alternative Investments	64,854,366	49,432,089
Total Investment Pools	<u>\$ 513,852,824</u>	<u>\$ 412,385,908</u>

Investment income from cash equivalents and investments is comprised of the following for the years ended June 30, 2018 and 2017:

	<b>June 30, 2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Dividends and interest	\$ 3,756,331	\$ 3,117,041	\$ -	\$ 6,873,372
Realized gains (losses)	5,381,411	12,939,369	-	18,320,780
Unrealized gains (losses)	4,117,383	9,501,018	-	13,618,401
Total	<u>\$ 13,255,125</u>	<u>\$ 25,557,428</u>	<u>\$ -</u>	<u>\$ 38,812,553</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Investments (Continued)**

	<b>June 30, 2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Dividends and interest	\$ 3,452,425	\$ 3,115,782	\$ -	\$ 6,568,207
Realized gains (losses)	5,459,103	10,715,093	-	16,174,196
Unrealized gains (losses)	12,943,590	16,567,477	-	29,511,067
Total	<u>\$ 21,855,118</u>	<u>\$ 30,398,352</u>	<u>\$ -</u>	<u>\$ 52,253,470</u>

**4. Assets Held in Trust**

Assets held in trust are comprised of the following at fair value as reported by the custodian or trustee:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Held by others:		
Temporarily restricted	\$ 24,391,752	\$ 25,215,976
Permanently restricted	1,966,152	1,966,152
	<u>26,357,904</u>	<u>27,182,128</u>
Held by the Foundation:		
Temporarily restricted	684,055	830,420
	<u>684,055</u>	<u>830,420</u>
Total assets held in trust	<u>\$ 27,041,959</u>	<u>\$ 28,012,548</u>

Certain changes in funds held in trust are comprised of the following for the years ended June 30, 2018 and 2017, respectively, and are reported as increases/decreases in contributions received.

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Totals</b>	
				<b>2018</b>	<b>2017</b>
Held by Foundation	\$ -	\$ 66,655	\$ -	\$ 66,655	\$ 88,850
Held by others	-	879,821	-	879,821	3,403,876
	<u>\$ -</u>	<u>\$ 946,476</u>	<u>\$ -</u>	<u>\$ 946,476</u>	<u>\$ 3,492,726</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**4. Assets Held in Trust (Continued)**

Distributions received from funds held in trust by others were recognized as temporarily restricted contributions in the amount of \$1,702,727 and \$233,388 for the years ended June 30, 2018 and 2017, respectively.

Distributions and other expenses paid from funds held in trust by the Foundation are included as expenses on the financial statements and totaled \$10,121 and \$47,928 for the years ended June 30, 2018 and 2017, respectively.

**5. Contributions Receivable**

The Foundation has recognized unconditional promises to give as contributions receivable due to be collected as follows as of:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Receivable in less than one year	\$ 13,681,025	\$ 9,483,713
Receivable in one to five years	35,092,138	44,788,066
Receivable in six to ten years	3,928,213	4,361,488
Receivable in more than ten years	580,454	655,180
	<u>53,281,830</u>	<u>59,288,447</u>
Less, allowance for uncollectible pledges	(13,617,020)	(10,251,001)
Less, discount for time value of money	(8,997,168)	(10,520,296)
Contributions receivable, net	<u>\$ 30,667,642</u>	<u>\$ 38,517,150</u>

The discount to net present value was calculated using the estimated earnings rate of 8.00% as of June 30, 2018 and 2017.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**6. Fixed Assets**

	<b>Totals</b>	
	<b>2018</b>	<b>2017</b>
Equipment	\$ 12,371	\$ 12,371
Computer software	100,389	100,389
Vehicles	44,116	44,116
Leasehold improvements	1,708,328	-
Total fixed assets	1,865,204	156,876
Accumulated depreciation and amortization	(242,457)	(119,745)
Fixed assets	<u>\$ 1,622,747</u>	<u>\$ 37,131</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$122,712, and \$6,985, respectively.

**7. Notes Payable**

The Foundation entered into an agreement with the University of South Carolina Alumni Association (the “Association”) to invest up to \$2,450,000 at guaranteed rates up to 1.5% until the Association requests the funds. During the year ended June 30, 2018 the Foundation paid all principal and accrued interest owed to the Association. The Foundation owed \$1,019,356 at June 30, 2017 under this agreement. Accrued interest payable totaled \$32,233 at June 30, 2017 and is included in accrued interest payable on the Statement of Financial Position.

Also, the Foundation entered into an agreement with the University of South Carolina Business Partnership Foundation (the “BPF”) to invest up to \$5,000,000 at guaranteed rates up to 1.0% until the BPF requests the funds. The Foundation owed \$4,000,000 at June 30, 2018 and June 30, 2017 under this agreement. Accrued interest payable totaled \$209,074 and \$173,455 at June 30, 2018 and 2017, respectively, and is included in accrued interest payable on the Statement of Financial Position.

On June 25, 2015, the Foundation obtained a line of credit with a bank in the amount of \$20,000,000 with a floating interest rate equal to the 30 day LIBOR rate plus 1.20%. Interest only payments began August 2, 2015. The entire outstanding principal balance, along with any outstanding accrued interest is due on June 25, 2019. As of June 30, 2018 and 2017, the outstanding balance was \$5,933,004 and \$3,933,004, respectively.

As a result of these agreements, the Foundation recognized interest expense of \$198,973 and \$348,716 for the years ended June 30, 2018 and 2017, respectively.



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**8. Funds Held for Others**

The Foundation had \$11,611,924 and \$8,809,923 as of June 30, 2018 and 2017, respectively, for funds held for affiliated entities.

**9. Debt Guaranties/Contingencies/Commitments**

The Foundation has guaranteed under a guaranty agreement the repayment of an \$8,500,000 line of credit taken out by the USC Development Foundation, a supporting organization of the University of South Carolina. As of June 30, 2018, the outstanding principal balance was \$7,575,000.

The Foundation has guaranteed under a guaranty agreement the repayment of a \$26,000,000 line of credit taken out by the USC Development Foundation. As of June 30, 2018, the outstanding principal balance was \$23,356,249.

As reported in *Note 2*, the Foundation has committed to invest an additional \$3,258,167 in Private Equity Holdings. This money is payable upon demand.

During the 2014/2015 fiscal year, the USCDF – West Campus LLC entered into a bond financing agreement for the construction of a new dormitory. The total debt under this agreement will be \$92,700,000. The current outstanding balance was \$89,250,705 as of June 30, 2018. The USC Educational Foundation is providing a guaranty on portions of this debt that will be reduced once certain benchmarks are reached, as set forth below. The USCDF – West Campus LLC is paying the Educational Foundation a 1% annual guarantor’s fee, as set forth below. In addition, the USC Development Foundation is agreeing with the Educational Foundation that, in the event of a default on the financing and enforcement by the lenders of the guaranties, any guaranty payment to the lenders will be made first by the USC Development Foundation to its \$15 million limit before the Educational Foundation has to pay on its guaranty, and the USCDF – West Campus LLC will repay the Educational Foundation with interest for any guaranty payment made by the Educational Foundation.

<u>Guaranty Benchmarks, Limits and Fees:</u>	<u>Limit of Guaranty</u>	<u>Guaranty Fee</u>
a. At bond closing (July 31, 2014)	\$75 million	\$750,000
b. At completion of Phase 1 (July 31, 2015)	\$50 million	500,000
c. At completion of Phase 1A (July 31, 2016)	\$25 million	250,000
d. One year after meeting 1.2 Debt Service Coverage Ratio (DSCR) (April 2, 2018)	\$15 million	150,000
e. Two consecutive years at 1.2 DSCR (Estimated to be September 1, 2018)	\$10 million	100,000
f. Three consecutive years at 1.2 DSCR (Estimated to be September 2019)	\$0	-
Total guaranty fees to be paid to the Foundation		<u>\$1,750,000</u>

As of June 30, 2018, the USCDF – West Campus LLC did not meet the required debt service coverage ratios mentioned above. As of the date of this financial statement a notification of default has not been received by the USCDF – West Campus LLC.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**10. Board Designated Funds**

Quasi-Endowments have been designated totaling \$8,937,531 and \$7,476,622 at June 30, 2018 and 2017, respectively. Quasi-endowments are established from time to time in an effort to manage the use of funds received without donor restrictions. The quasi-endowments may be created to fund an established program or project of one of the Colleges or Departments. Additionally, quasi-endowments may be established to provide funding for new and/or changing initiatives.

**11. Temporarily Restricted Net Assets**

At June 30, 2018, temporarily restricted net assets are available for the following specific program services:

Contributions receivable	\$ 30,667,642
Awaiting full endowment level and temporary investment earnings	60,509,336
Annuity and life trust agreements	29,473,755
	<u>\$ 120,650,733</u>

Net assets released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors were \$17,680,806 and \$63,518,775 for the years ended June 30, 2018 and 2017, respectively.

**12. Permanently Restricted Assets**

Permanently restricted net assets of \$293,699,908 at June 30, 2018 are restricted to investment in perpetuity, the income from which is expendable to support the Foundation's objectives.

During the normal course of business, investment losses may cause a temporary invasion of corpus for certain permanently restricted endowments. These negative balances amounted to \$694,403 and \$1,069,300 at June 30, 2018 and 2017, respectively. Management believes that these declines are temporary.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**13. Operating Leases**

During the year ended June 30, 2014, the Foundation entered into an operating lease for certain equipment to be used for teaching and research at the McNair Center at the University of South Carolina. Annual payments in the amount of \$212,500 are due through December 2019.

Additionally, the Foundation entered into multiple operating leases for certain rental spaces. The payments on these leases ranged from \$400 to \$14,237 and are due monthly.

Future payments under these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 558,269
2020	408,381
2021	221,172
2022	226,696
2023	153,632
	<u>\$ 1,568,150</u>

**14. Endowments**

The Foundation's endowment consists of approximately 2,300 individual funds established for various purposes. It includes donor-restricted contributions and other amounts as required by GAAP. Net assets associated with the endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**14. Endowments (Continued)**

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the South Carolina Uniform Prudent Management of Institutional Funds Act (SCUPMIFA) 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 classifies 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 of the applicable donor 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 SCUPMIFA. In accordance with SCUPMIFA, 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 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) Other resources of the Foundation.
- 7) The investment policies of the Foundation.

Endowment net asset composition by type of fund consists of the following as of June 30, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Totals</b>
Total net assets	\$ 111,055,554	\$ 120,650,733	\$ 293,699,908	\$ 525,406,195
less, Board designated quasi endowments	(8,937,531)	-	-	(8,937,531)
less, other funds not meeting endowment definition	(74,204,458)	(66,838,562)	(1,934,309)	(142,977,329)
Total endowment	<u>\$ 27,913,565</u>	<u>\$ 53,812,171</u>	<u>\$ 291,765,599</u>	<u>\$ 373,491,335</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**14. Endowments (Continued)**

Changes in endowment net assets for the year ended June 30, 2018 and June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Ending endowment net asset balance - June 30, 2016	\$ 14,327,097	\$ 27,493,087	\$ 223,173,271	\$ 264,993,455
Investment return	4,731,955	30,496,106	-	35,228,061
Contributions	446,371	4,273,506	14,185,191	18,905,068
Other revenue	132,377	-	-	132,377
Net assets released from restrictions	13,670,578	(21,198,737)	44,920,623	37,392,464
Appropriation of endowment assets for expenditures	(8,310,657)	-	-	(8,310,657)
Ending endowment net asset balance - June 30, 2017	24,997,721	41,063,962	282,279,085	348,340,768
Investment return	1,506,348	25,190,307	-	26,696,655
Contributions	400,684	3,283,618	5,897,765	9,582,067
Other revenue	84,382	-	-	84,382
Net assets released from restrictions	9,134,698	(15,725,716)	3,588,749	(3,002,269)
Appropriation of endowment assets for expenditures	(8,210,268)	-	-	(8,210,268)
Ending endowment net asset balance - June 30, 2018	\$ 27,913,565	\$ 53,812,171	\$ 291,765,599	\$ 373,491,335

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 SCUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were (\$1,611,541) and (\$2,552,639) as of June 30, 2018 and June 30, 2017, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were previously approved and were critical initiatives deemed prudent by the Board of Directors.

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 endowment 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 or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce investment returns at least equal to inflation as measured by the Consumer Price Index plus a 4.25% pay out and 1.25% for associated fees while assuming a moderate level of investment risk.

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 gains and losses) 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.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**14. Endowments (Continued)**

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.25 percent of its endowment fund's average fair value over the prior 5 quarters through September 30 proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 7 to 8 percent annually. 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.

**15. Related Party Transactions**

The Foundation provided direct support to the University of South Carolina for general departmental expenditures, scholarships, equipment purchases, and construction of buildings which totaled \$26,507,858 and \$36,701,949 for the years ended June 30, 2018 and 2017, respectively. The Foundation had accounts payable to USC in the amount of \$8,313,374 and \$6,754,352 for the years ended June 30, 2018 and 2017, respectively.

The Foundation has entered into the following agreements with USC and its affiliated entities:

University of South Carolina

Retention payments for certain University employees were expensed in the amount of \$282,583 and \$350,000 for 2018 and 2017, respectively.

University Specialty Clinics

Salary supplements for certain University employees were paid in the amount of \$528,141 and \$408,783 for 2018 and 2017, respectively.

USC Development Foundation

The Foundation paid the USC Development Foundation for building occupancy costs in the amount of \$186,000 for the years ended June 30, 2018 and 2017.

The Foundation incurred expenses totaling \$424,865 on behalf of the USC Development Foundation for various operational costs, including salary support, equipment, investment advisory fees, etc. Of this total, \$387,040 is still owed by the USC Development Foundation at June 30, 2018.

Additionally, the Foundation recorded receivables in the amount of \$150,000 and \$250,000 at June 30, 2018 and 2017, respectively, for the Debt Guaranty fees due from the USC Development Foundation, and \$4,000,000 for a cash advance related to a potential purchase of real estate owned by the USC Development Foundation.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**15. Related Party Transactions (Continued)**

Short-term Library Advance

Under this agreement, the Foundation has agreed to advance up to \$3,000,000 to the USC Library for construction costs and interior furnishing with an interest rate of 2%. The library owed \$1,171,257 and \$1,349,494 to the Foundation for the years ended June 30, 2018 and 2017, respectively. These funds will be repaid over time by the USC Library.

Alumni Association Note Receivable

The Foundation entered into a promissory note on October 22, 2013 with the Alumni Association in which the Foundation agreed to advance the Alumni Association up to \$9,000,000 to assist with the construction of the Alumni building at 900 Senate Street. The interest rate is fixed at 3.5% per year. Beginning December 1, 2013, the Alumni Association was required to begin making interest payments. The entire balance was due October 22, 2018. The current outstanding balance is \$5,933,004. Subsequent to year end, on July 25, 2018, the loan due date was extended to October 22, 2020.

Alumni Association Note Payable

The provisions of the Alumni Association Note Payable are described in *Note 7*.

BPF Note Payable

The provisions of the BPF Note Payable are described in *Note 7*.

Funds Held for the Educational Foundation of USC Lancaster

At June 30, 2018 and 2017, the Foundation held for the Educational Foundation of USC Lancaster \$9,233,029 and \$8,649,976, respectively.

Funds Held for the USC Alumni Association

At June 30, 2018, the Foundation held for the USC Alumni Association \$2,196,495.

Guaranties of Debt of the USC Development Foundation

The provisions of the Guaranties of the Debt of the USC Development Foundation are described in *Note 9*.

Collateral Assignment Split Dollar Arrangement

The Foundation participates in a collateral assignment split dollar plan for the benefit of certain key University personnel. Under this program, the Foundation advanced funds for the payment of premiums on life insurance policies owned by the participating personnel. The Foundation will receive repayment of the premium advance along with interest on the outstanding balance upon death of the insured personnel. As of June 30, 2018, and 2017, the outstanding receivable was \$4,176,327 and \$528,233 respectively.

**16. Subsequent events**

Subsequent events were evaluated through September 24, 2018, which is the date the financial statements were available for issue.

## OTHER FINANCIAL INFORMATION



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	<b>Scholarships, Tuition Reimbursements and Awards</b>	<b>Salary Supplements and Benefits</b>	<b>Support and Operational Costs</b>	<b>Fundraising and Advancement</b>	<b>Other Program Services</b>	<b>Total</b>
Scholarships and tuition reimbursements	\$ 13,060,731	\$ -	\$ -	\$ -	\$ -	\$ 13,060,731
Salary supplements and benefits	-	5,317,866	-	-	-	5,317,866
Operational salaries and benefits	-	-	1,693,157	-	-	1,693,157
Contributions and grants	-	-	10,000	-	8,591,680	8,601,680
Contractual services and professional fees	-	-	2,285,160	150,229	4,054,205	6,489,594
Rent (office, telephone, copier)	-	-	202,558	2,701	967,871	1,173,130
Food supplies	-	-	32,185	35,479	1,468,842	1,536,506
Printing and advertising	-	-	65	10,144	171,236	181,445
Fundraising	-	-	-	778,404	-	778,404
Construction costs, maintenance and repairs	-	-	27,410	-	3,358,206	3,385,616
Office supplies, equipment and software	-	-	399,199	48,545	1,969,798	2,417,542
Postage and freight	-	-	3,997	1,354	11,135	16,486
Telephone	-	-	3,086	16,974	17,658	37,718
Insurance	-	-	41,201	-	217,632	258,833
Other program supplies and sundries	-	-	44,014	3,015	236,308	283,337
Plaques, engraving and framing	-	-	-	2,337	51,723	54,060
Awards and honoraria	-	26,814	949	24,958	330,401	383,122
Conferences and travel	-	-	35,810	23,491	877,221	936,522
Property and use tax	-	-	1,261	8,239	233,221	242,721
Fees, subscriptions and dues	-	-	10,415	12,167	242,664	265,246
Instructional materials	-	-	69	87	104,975	105,131
Housing, room costs and moving expenses	-	-	3,759	7,300	355,860	366,919
Trust and annuity expenses	-	-	-	-	329,577	329,577
Split interest adjustment	-	492,060	-	-	(189,472)	302,588
Depreciation and amortization	-	-	-	-	122,712	122,712
Interest expense - line of credit	-	-	-	-	154,488	154,488
Interest expense - USC Alumni Association loan	-	-	-	-	8,867	8,867
Interest expense - USC Business Partnership loan	-	-	-	-	35,618	35,618
<b>Total Expenses</b>	<b>\$ 13,060,731</b>	<b>\$ 5,836,740</b>	<b>\$ 4,794,295</b>	<b>\$ 1,125,424</b>	<b>\$ 23,722,426</b>	<b>\$ 48,539,616</b>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Scholarships, Tuition Reimbursements and Awards	Salary Supplements and Benefits	Support and Operational Costs	Fundraising and Advancement	Other Program Services	Total
Scholarships and tuition reimbursements	\$ 11,632,566	\$ -	\$ -	\$ -	\$ -	\$ 11,632,566
Salary supplements and benefits	-	5,337,160	-	-	-	5,337,160
Operational salaries and benefits	-	-	1,585,354	-	-	1,585,354
Contributions and grants	-	-	5,000	1,531	7,023,580	7,030,111
Contractual services and professional fees	-	-	1,672,041	94,396	4,647,634	6,414,071
Rent (office, telephone, copier)	-	-	203,614	1,554	657,228	862,396
Food supplies	-	-	65,332	27,014	1,382,822	1,475,168
Printing and advertising	-	-	-	700	183,717	184,417
Fundraising	-	-	-	749,148	-	749,148
Construction costs, maintenance and repairs	-	-	28,617	-	10,469,659	10,498,276
Office supplies, equipment and software	-	-	122,558	30,882	2,910,348	3,063,788
Postage and freight	-	-	2,042	926	12,757	15,725
Telephone	-	-	170	15,858	26,770	42,798
Insurance	-	-	45,469	-	212,270	257,739
Travel	-	-	4,517	6,765	683,176	694,458
Other program supplies and sundries	-	-	41,018	44,908	213,205	299,131
Plaques, engraving and framing	-	-	-	-	38,303	38,303
Awards and honoraria	-	65,151	6,879	2,350	398,847	473,227
Conferences and travel	-	-	4,694	11,255	96,536	112,485
Property and use tax	-	-	-	6,215	177,293	183,508
Fees, subscriptions and dues	-	-	6,820	12,793	249,871	269,484
Instructional materials	-	-	-	280	129,532	129,812
Housing, room costs and moving expenses	-	-	10,613	27,039	402,990	440,642
Trust and annuity expenses	-	-	-	-	356,373	356,373
Split interest adjustment	-	(32,253)	-	-	(130,165)	(162,418)
Bad debt	-	-	-	-	5,000	5,000
Depreciation	-	-	-	6,985	-	6,985
Interest expense - line of credit	-	-	-	-	295,909	295,909
Interest expense - USC Alumni Association loan	-	-	-	-	14,049	14,049
Interest expense - USC Business Partnership loan	-	-	-	-	38,758	38,758
<b>Total Expenses</b>	<b>\$ 11,632,566</b>	<b>\$ 5,370,058</b>	<b>\$ 3,804,738</b>	<b>\$ 1,040,599</b>	<b>\$ 30,496,462</b>	<b>\$ 52,344,423</b>