

# University of South Carolina Educational Foundation

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**Financial Statements**

**Years Ended June 30, 2019 and 2018**

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## **Independent Auditors' Report**

To the Board of Directors  
University of South Carolina Educational Foundation  
Columbia, South Carolina

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 statement of financial position as of June 30, 2019 and the related statements of activities, functional expenses 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.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina Educational Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, the Foundation adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to that matter.



**Prior Period Financial Statements**

The financial statements of the Foundation as of June 30, 2018, were audited by other auditors whose report dated September 24, 2018, expressed an unmodified opinion on those financial statements.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
September 11, 2019**

**University of South Carolina Educational Foundation**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

	2019	As Adjusted 2018
<b>Assets</b>		
Cash and cash equivalents	\$ 13,638,744	\$ 7,533,499
Accounts receivable:		
University of South Carolina	949,779	1,171,257
University of South Carolina Development Foundation	5,591,515	4,537,040
Other	75,267	67,530
Notes receivable:		
University of South Carolina Alumni Association	5,933,004	5,933,004
Collateral assignment split dollar arrangement	4,300,674	4,176,327
Contributions receivable, net	48,660,383	30,667,642
Investments	477,646,887	476,490,338
Assets held in trust by others	5,088,686	26,357,904
Assets held by the Foundation	714,001	684,055
Other assets	251	251
Fixed assets, net	1,354,464	1,622,747
	<u>\$ 563,953,655</u>	<u>\$ 559,241,594</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable:		
University of South Carolina	\$ 7,359,679	\$ 8,313,374
Other	814,158	2,722,529
Accrued interest payable:		
University of South Carolina Alumni Association	25,827	-
University of South Carolina Business Partnership Foundation	-	209,074
Funds held for others:		
Educational Foundation of USC Lancaster	9,340,018	9,233,029
University of South Carolina Alumni Association	9,899	2,196,495
Other	134,059	182,400
Annuity obligations	1,145,916	1,045,494
Notes payable:		
University of South Carolina Alumni Association	1,870,000	-
University of South Carolina Business Partnership Foundation	-	4,000,000
Other	6,713,004	5,933,004
	<u>27,412,560</u>	<u>33,835,399</u>
Net assets:		
Without donor restrictions:		
Undesignated	81,295,173	75,062,199
Designated - quasi-endowments	8,798,264	8,937,531
With donor restrictions:		
Purpose restrictions	31,381,338	28,158,815
Time-restricted for future periods	110,147,208	119,547,743
Perpetual in nature	304,919,112	293,699,907
	<u>536,541,095</u>	<u>525,406,195</u>
	<u>\$ 563,953,655</u>	<u>\$ 559,241,594</u>

See accompanying notes.

**University of South Carolina Educational Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2019**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue, gains, and other support:			
Contributions:			
Received	\$ 26,835,514	\$ (8,641,137)	\$ 18,194,377
Change in contributions receivable	-	17,992,740	17,992,740
Dividends and interest, net	1,719,627	4,057,292	5,776,919
Net gains on investments	11,488,146	5,178,003	16,666,149
Other receipts	676,824	200,842	877,666
Net assets released from restrictions:			
Satisfaction of program restrictions	963,501	(963,501)	-
Expiration of time restrictions	12,783,046	(12,783,046)	-
Total revenue, gains, and other support	<u>54,466,658</u>	<u>5,041,193</u>	<u>59,507,851</u>
Expenses:			
Scholarships, tuition reimbursements and awards	13,607,824	-	13,607,824
Salary supplements and benefits	4,948,267	-	4,948,267
Support and operational costs	3,594,427	-	3,594,427
Fundraising and advancement	985,580	-	985,580
Other program services	25,236,853	-	25,236,853
Total expenses	<u>48,372,951</u>	<u>-</u>	<u>48,372,951</u>
Changes in net assets	6,093,707	5,041,193	11,134,900
Net assets, beginning of year	<u>83,999,730</u>	<u>441,406,465</u>	<u>525,406,195</u>
Net assets, end of year	<u>\$ 90,093,437</u>	<u>\$ 446,447,658</u>	<u>\$ 536,541,095</u>

See accompanying notes.

**University of South Carolina Educational Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2018**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>As Adjusted Total</u>
Revenue, gains, and other support:			
Contributions:			
Received	\$ 28,488,808	\$ 15,432,341	\$ 43,921,149
Change in contributions receivable	-	(7,849,508)	(7,849,508)
Dividends and interest	1,870,709	3,117,041	4,987,750
Net gains 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	(2,424,698)	-
Expiration of time restrictions	8,751,026	(8,751,026)	-
	<u>52,049,828</u>	<u>21,964,537</u>	<u>74,014,365</u>
Total revenue, gains, and other support			
Expenses:			
Scholarships, tuition reimbursements and awards	13,060,730	-	13,060,730
Salary supplements and benefits	5,836,740	-	5,836,740
Support and operational costs	2,908,673	-	2,908,673
Fundraising and advancement	1,125,424	-	1,125,424
Other program services	23,722,426	-	23,722,426
	<u>46,653,993</u>	<u>-</u>	<u>46,653,993</u>
Total expenses			
Changes in net assets	5,395,835	21,964,537	27,360,372
Net assets, beginning of year	<u>78,603,895</u>	<u>419,441,928</u>	<u>498,045,823</u>
Net assets, end of year	<u>\$ 83,999,730</u>	<u>\$ 441,406,465</u>	<u>\$ 525,406,195</u>

See accompanying notes.

**University of South Carolina Educational Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	Scholarships, Tuition Reimbursements and Awards	Salary Supplements and Benefits	Support and Operational Costs	Fundraising and Advancement	Other Program Services	Total
Awards and honoraria	\$ -	\$ 19,168	\$ 1,163	\$ 21,758	\$ 341,801	\$ 383,890
Conferences and travel	-	-	24,334	22,387	1,227,700	1,274,421
Construction costs, maintenance and repairs	-	-	43,701	-	7,942,136	7,985,837
Contractual services and professional fees	-	-	315,477	110,627	2,967,846	3,393,950
Contributions and grants	-	-	-	1,000	6,269,582	6,270,582
Depreciation and amortization	-	-	-	-	348,283	348,283
Fees, subscriptions and dues	-	-	174,780	12,696	266,341	453,817
Food supplies	-	-	27,163	57,658	1,497,881	1,582,702
Fundraising	-	-	-	643,825	-	643,825
Instructional materials	-	-	-	-	89,382	89,382
Insurance	-	-	48,232	-	174,238	222,470
Interest expense - line of credit	-	-	-	-	250,359	250,359
Interest expense - USC Alumni Association loan	-	-	-	-	25,892	25,892
Interest expense - USC Business Partnership loan	-	-	-	-	33,843	33,843
Interest expense - USC Lancaster	-	-	-	-	4,454	4,454
Office supplies, equipment and software	-	-	358,830	44,747	1,150,427	1,554,004
Operational salaries and benefits	-	-	2,133,312	3,000	131,587	2,267,899
Other program supplies and sundries	-	-	218,579	3,359	81,733	303,671
Postage and freight	-	-	10	1,265	27,070	28,345
Printing and advertising	-	-	-	37,440	168,784	206,224
Property and use tax	-	-	782	7,380	22,013	30,175
Rent (office, telephone, copier)	-	-	202,287	1,085	991,935	1,195,307
Salary supplements and benefits	-	4,929,099	-	-	-	4,929,099
Scholarships and tuition reimbursements	13,607,824	-	-	-	-	13,607,824
Split interest adjustment	-	-	-	-	(190,365)	(190,365)
Telephone	-	-	45,777	17,353	109,443	172,573
Trust and annuity expenses	-	-	-	-	1,304,488	1,304,488
<b>Total expenses</b>	<b>\$ 13,607,824</b>	<b>\$ 4,948,267</b>	<b>\$ 3,594,427</b>	<b>\$ 985,580</b>	<b>\$ 25,236,853</b>	<b>\$ 48,372,951</b>

See accompanying notes.



**University of South Carolina Educational Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	Scholarships, Tuition Reimbursements and Awards	Salary Supplements and Benefits	Support and Operational Costs	Fundraising and Advancement	Other Program Services	Total
Awards and honoraria	\$ -	\$ 26,814	\$ 949	\$ 24,958	\$ 330,401	\$ 383,122
Conferences and travel	-	-	35,810	23,491	877,221	936,522
Construction costs, maintenance and repairs	-	-	27,410	-	3,358,206	3,385,616
Contractual services and professional fees	-	-	399,538	150,229	4,054,205	4,603,972
Contributions and grants	-	-	10,000	-	8,591,680	8,601,680
Depreciation and amortization	-	-	-	-	122,712	122,712
Fees, subscriptions and dues	-	-	10,415	12,167	242,664	265,246
Food supplies	-	-	32,185	35,479	1,468,842	1,536,506
Fundraising	-	-	-	778,404	-	778,404
Housing, room costs and moving expenses	-	-	3,759	7,300	355,860	366,919
Instructional materials	-	-	69	87	104,975	105,131
Insurance	-	-	41,201	-	217,632	258,833
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
Office supplies, equipment and software	-	-	399,199	48,545	1,969,798	2,417,542
Operational salaries and benefits	-	-	1,693,157	-	-	1,693,157
Other program supplies and sundries	-	-	44,014	3,015	236,308	283,337
Plaques, engraving and framing	-	-	-	2,337	51,723	54,060
Postage and freight	-	-	3,997	1,354	11,135	16,486
Printing and advertising	-	-	65	10,144	171,236	181,445
Property and use tax	-	-	1,261	8,239	233,221	242,721
Rent (office, telephone, copier)	-	-	202,558	2,701	967,871	1,173,130
Salary supplements and benefits	-	5,317,866	-	-	-	5,317,866
Scholarships and tuition reimbursements	13,060,730	-	-	-	-	13,060,730
Split interest adjustment	-	492,060	-	-	(189,472)	302,588
Telephone	-	-	3,086	16,974	17,658	37,718
Trust and annuity expenses	-	-	-	-	329,577	329,577
<b>Total expenses</b>	<b>\$ 13,060,730</b>	<b>\$ 5,836,740</b>	<b>\$ 2,908,673</b>	<b>\$ 1,125,424</b>	<b>\$ 23,722,426</b>	<b>\$ 46,653,993</b>

See accompanying notes.

**University of South Carolina Educational Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ 11,134,900	\$ 27,360,372
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	348,283	122,712
Net gains on investments	(16,666,149)	(31,939,181)
Actuarial gain on annuity obligations	(21,459)	(183,618)
Contributions restricted to endowment	(10,776,404)	(9,181,383)
Net change in operating assets and liabilities:		
Accounts receivable	(840,734)	(110,640)
Note receivable	(124,347)	(3,648,094)
Contributions receivable	(17,992,741)	7,849,508
Accounts payable	(2,862,066)	2,732,992
Accrued interest payable	(183,247)	3,385
Funds held for others	(2,127,948)	2,802,001
Net cash flows used by operating activities	<u>(40,111,912)</u>	<u>(4,191,946)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(80,000)	(1,708,328)
Proceeds from sale of investments	50,097,131	43,411,211
Purchase of investments	(34,587,531)	(51,965,076)
Net cash flows provided (used) by investing activities	<u>15,429,600</u>	<u>(10,262,193)</u>

**University of South Carolina Educational Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

**(Continued)**

	<u>2019</u>	<u>2018</u>
Cash flows provided by financing activities:		
Proceeds from contributions restricted for investment in endowment	10,776,404	9,181,383
Proceeds from notes payable	3,650,000	2,000,000
Payments on notes payable	(5,000,000)	(1,019,356)
Changes in split interest agreements	21,269,218	824,224
Changes in annuity and trust obligations	91,935	204,981
Net cash flows provided by financing activities	<u>30,787,557</u>	<u>11,191,232</u>
Increase (decrease) in cash and cash equivalents	6,105,245	(3,262,907)
Cash and cash equivalents at beginning of year	<u>7,533,499</u>	<u>10,796,406</u>
Cash and cash equivalents at end of year	<u>\$ 13,638,744</u>	<u>\$ 7,533,499</u>
Supplemental cash flow information		
Cash paid during the year for:		
Interest	<u>\$ 497,795</u>	<u>\$ 195,588</u>
Noncash investing and financing activities:		
Gifts of real estate equipment	<u>\$ -</u>	<u>\$ 3,000,000</u>

## **Notes to Financial Statements**

### **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.

#### ***Basis of accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### ***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") 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.

#### ***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. 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.

#### ***Cash and cash equivalents***

The Foundation considers all cash and highly liquid investments with original maturity of three months or less to be cash equivalents. The Foundation's deposits in each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). It is management's opinion that the Foundation is not exposed to any significant credit risk related to cash.

#### ***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.

***Contributions receivable***

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 net assets with donor restrictions 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, 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 or net asset 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 on the statements of activities as increases or decreases in net assets without donor restrictions 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.

***Assets held in trust***

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

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 on the statements 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.

By the Foundation

Trust agreements that name the Foundation as trustee are held in trust accounts that are measured at fair value on the statements of financial position. Changes in fair value are included on the statements of activities as changes in contributions received in net assets with donor restrictions. Distributions from the trust accounts are recognized as expenses on the statements 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.

***Fixed assets***

Fixed asset purchases are stated 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. The Foundation's policy is to capitalize fixed assets in excess of \$5,000 and the estimated useful life exceeds three years. Depreciation is provided over the estimated useful life computed on the straight-line method.

**University of South Carolina Educational Foundation**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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The Foundation reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. There were no impairments of fixed assets as of June 30, 2019 and 2018.

***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. The Foundation had \$9,483,976 and \$11,611,924 as of June 30, 2019 and 2018, respectively, of funds held for affiliated entities.

***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 follow:

	<u>2019</u>	<u>2018</u>
Contributions	\$ 266,993	\$ 96,795
Actuarial gain	21,459	183,618
Payments made	(313,034)	(329,578)

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 statements of financial position and are valued at \$450,741 and \$572,621 as of June 30, 2019 and 2018, respectively.

***Income taxes***

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

***Net assets***

During fiscal year 2019, the Foundation adopted ASU No. 2016-14 – *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for disclosures around liquidity and availability of resources. This disclosure has been presented for 2019 as allowed by ASU No. 2016-14. For 2019, net assets have been condensed into two groups as follows:

*Without donor restrictions*

The Foundation reports that part of its net assets that is not restricted by donor-imposed stipulations as net assets without donor restrictions. The Foundation's governing board has internally earmarked portions of its net assets without donor restrictions as designated for quasi endowments (board designated). The principal of such funds is invested to provide income for operations.

*With donor restrictions*

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, net assets with donor restrictions

**University of South Carolina Educational Foundation**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

are reclassified to net assets without donor restrictions and reported on the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without restrictions. All contributions receivable are considered net assets with donor restrictions until received by the Foundation. Once the funds have been received, they are then reclassified if necessary.

Net assets with donor restrictions held in perpetuity 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 endowed funds held in perpetuity 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.

The net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 are as follows:

	<b>ASU 2016-14 Classification:</b>		
	Without donor restrictions	With donor restrictions	Total
<b><u>Net asset classification</u></b>			
As previously presented:			
Unrestricted:			
Undesignated	\$ 102,118,023	\$ -	\$ 102,118,023
Designated – quasi-endowments	8,937,531	-	8,937,531
Temporarily restricted	-	120,650,733	120,650,733
Permanently restricted	-	293,699,908	293,699,908
Reclassification for the ASU adoption	(27,055,824)	27,055,824	-
Total	<u>\$ 83,999,730</u>	<u>\$ 441,406,465</u>	<u>\$ 525,406,195</u>

***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 with and without donor restrictions.

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 support without restrictions 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 with donor 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.

***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 years; 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 on the statement of activities at their fair value. No donated professional services were received during the year.

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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.

***Expense allocation***

The costs of providing various programs and activities have been summarized on a functional basis on the statements of activities. Management uses a direct method for recording expenses by function.

***Recently issued accounting pronouncements***

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For statement of activities purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard will be effective for the Foundation July 1, 2020, and the Foundation is currently evaluating the effect this ASU may have on its financial statements.

**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 more than one year is estimated by discounting the estimated future cash flows using 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 was made based upon readily available information. Hedge funds and private equity funds are valued at fair market value or net asset value, as determined by the managers of the private equity funds or hedge funds as reported to them by the general partner of the underlying funds or partnerships.
- Accounts and 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.



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

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

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

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

The following tables set forth by level within the fair value hierarchy the Foundation's assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2019 and 2018:

<b>Description</b>	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>June 30, 2019</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Financial assets requiring fair value disclosure:				
Investments	\$ 423,670,237	\$416,954,205	\$ -	\$ 6,716,032
Other investments	9,623,233	-	-	9,623,233
Assets held in trust by others	5,088,686	-	-	5,088,686
Assets held in trust by the Foundation	714,001	714,001	-	-
	<u>439,096,157</u>	<u>\$417,668,206</u>	<u>\$ -</u>	<u>\$ 21,427,951</u>
Investments at NAV (a)	44,353,417			
Total investments at fair value	<u>\$ 483,449,574</u>			
Financial liabilities requiring fair value disclosure:				
Annuity obligations	<u>\$ 1,145,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,145,916</u>

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<u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>June 30, 2018</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Financial assets requiring fair value disclosure:				
Investments	\$ 422,631,062	\$415,123,928	\$ -	\$ 7,507,134
Other investments	10,007,020	-	-	10,007,020
Assets held in trust by others	26,357,904	-	-	26,357,904
Assets held in trust by the Foundation	684,055	684,055	-	-
	<u>459,680,041</u>	<u>\$415,807,983</u>	<u>\$ -</u>	<u>\$ 43,872,058</u>
Investments at NAV (a)	<u>43,852,256</u>			
Total investments at fair value	<u>\$ 503,532,297</u>			
Financial liabilities requiring fair value disclosure:				
Annuity obligations	<u>\$ 1,045,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,045,494</u>

(a) In accordance with Topic 820, certain investments that were measured at net asset value ("NAV") per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Changes in Level 3 fair value measurements using significant unobservable inputs were as follows:

	<u>Private Equity Partnerships</u>	<u>Other Investments</u>	<u>Assets Held in Trust by Others</u>	<u>Annuity Obligations</u>
Ending balance – June 30, 2017	\$ 7,123,581	\$ 4,470,653	\$ 27,182,128	\$ (1,170,497)
Realized and unrealized gains on investments, net	703,902	251,367	-	-
Purchases of investments	1,149,973	-	-	-
Return of capital	(1,490,572)	-	-	-
Fees	(33,554)	-	-	-
Cash out of dividend/realized gain	53,804	-	-	-
Gift in-kind	-	5,285,000	-	-
Change in annuity obligations	-	-	-	125,003
Change in assets held in trust by others	-	-	(824,224)	-
Ending balance – June 30, 2018	<u>7,507,134</u>	<u>10,007,020</u>	<u>26,357,904</u>	<u>(1,045,494)</u>
Realized and unrealized gains (losses) on investments, net	(672,131)	50,316	-	-
Purchases of investments	471,566	-	-	-
Sales of investments	-	(434,103)	-	-
Return of capital	(809,084)	-	-	-
Fees	(29,703)	-	-	-
Cash out of dividend/realized gain	248,250	-	-	-
Change in annuity obligations	-	-	-	(100,422)
Change in assets held in trust by others	-	-	(21,269,218)	-
Ending balance – June 30, 2019	<u>\$ 6,716,032</u>	<u>\$ 9,623,233</u>	<u>\$ 5,088,686</u>	<u>\$ (1,145,916)</u>

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The investments reported as level 3 methods and measured at NAV for determining fair value consist of partnerships 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. 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 following table summarizes investments for which fair value is measured using the NAV per share practical expedient or level 3 methods for partnerships and hedge funds as of June 30, 2019 and 2018:

	<u>Fair Value at June 30, 2019</u>	<u>Fair Value at June 30, 2018</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>Hedge funds at NAV:</b>					
Fir Tree International Value Fund	\$ 6,727,997	\$ 7,161,182	None	(a)	(a)
Graham Global Fund	7,085,952	6,944,271	None	(b)	(b)
Taconic Opportunity Fund, Ltd.	3,375,015	-	None	(c)	(c)
Claren Road Credit Fund	-	6,491	None	(d)	(d)
MKP Opportunity Offshore, Ltd.	-	6,055,081	None	(e)	(e)
Och-Ziff Overseas Fund II, Ltd.	14,068,209	13,491,694	None	(f)	(f)
HBK Offshore Fund, Ltd.	13,096,244	10,193,537	None	(g)	(g)
	<u>\$ 44,353,417</u>	<u>\$ 43,852,256</u>			
<b>Partnerships at Level 3:</b>					
Kayne Anderson Energy Fund	\$ 902,000	\$ 1,191,510	\$ 970,703	(h)	(h)
Venture Investment Association	1,714,685	1,632,483	1,050,960	(h)	(h)
NGP Natural Resources XI	2,878,919	3,236,969	547,512	(h)	(h)
Siguler Guff Opportunity Fund	1,220,428	1,446,172	238,113	(h)	(h)
	<u>\$ 6,716,032</u>	<u>\$ 7,507,134</u>	<u>\$ 2,807,288</u>		

- (a) Following the two-year anniversary of capital contributed to the Fir Tree International Value Fund, the Foundation may make withdrawals from this fund upon providing written notification 90 days prior to the redemption. The Foundation will be eligible for subsequent redemptions from this fund on the two-year anniversary of the initial redemption date.
- (b) There is no minimum holding period for the Foundation's interest in Graham Global Investment Fund II SPC, Ltd. Proprietary Matrix Segregated Portfolio. This fund may be redeemed on the last business day of each month upon written notice of intent to withdraw assets three days prior to the redemption date.
- (c) Redemption from the fund has a two-year restriction from the date of the subscription. During this two-year restriction, the Foundation cannot redeem more than 25% of the shares within the fund. Subsequent to the two-year restriction, the fund requires 60-day notice for redemption.
- (d) The Claren Road Credit Fund, Ltd. requires written notice of intent to withdraw assets 45 to 60 days prior to the redemption date. Redemptions may occur on the last day of any month, however, when the redemption is not at the end of a quarter, the redemption is subject to a 4% liquidation fee. This fund reserves the right to withhold 5% of the investment value if the Foundation liquidates 95% or more of the investment. The remaining 5% would be available to the Foundation upon completion of the annual audit of this fund.

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- (e) Redemptions from the MKP Opportunity Offshore, Ltd. require notification 60 days prior to the redemption date, which may be the last business day of any calendar month. This fund reserves the right to withhold 5% of the investment balance until year-end.
- (f) Redemptions from the Och-Ziff Overseas Fund II, Ltd. may occur on the last day of any fiscal quarter. The fund requires written notice of intent to withdraw assets 30 days prior to the redemption date and the minimum redemption amount is \$50,000.
- (g) The HBK Offshore Fund, Ltd. requires written notice of intent to withdraw assets 90 to 120 days prior to the redemption date. The minimum redemption amount is \$250,000, however, the Foundation may redeem up to 25% of its interest, measured by net asset value, on any redemption date.
- (h) The fund manager determines the amount, timing and form of all distributions made by these funds.

**3. Investments**

The following summarizes the fair values of investments by investment pool at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Readily marketable	\$ 5,800,062	\$ 16,194,784
University Foundations pool	461,647,758	449,712,700
Other donor – restricted endowments, not readily marketable	<u>10,199,067</u>	<u>10,582,854</u>
	<u>\$ 477,646,887</u>	<u>\$ 476,490,338</u>

Investments are composed of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 3,765,014	\$ 4,726,416
Fixed income mutual funds	73,675,856	70,547,823
Stock and equity mutual funds	338,937,502	339,273,855
Real estate	3,434,424	3,868,527
Other / alternative investments	<u>57,834,091</u>	<u>58,073,717</u>
	<u>\$ 477,646,887</u>	<u>\$ 476,490,338</u>

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:

	<u>June 30, 2019</u>	
	<u>University Foundations Pooled Investments</u>	<u>Portion Owned by USC Educational Foundation</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Investment pools:		
Money market funds	\$ 4,695,578	\$ 3,746,914
Stocks	218,218,601	173,114,573
Equity mutual funds	219,994,309	165,455,390
Fixed income mutual funds	83,739,074	68,261,431
Other / alternative investments	<u>67,274,616</u>	<u>51,069,450</u>
Total investment pools	<u>\$ 593,922,178</u>	<u>\$ 461,647,758</u>

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	<b>June 30, 2018</b>	
	<b>University Foundations</b>	<b>Portion Owned by</b>
	<b>Pooled Investments</b>	<b>USC Educational Foundation</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Investment pools:		
Money market 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	<u>67,545,982</u>	<u>51,359,390</u>
Total investment pools	<u>\$ 576,439,036</u>	<u>\$ 449,712,700</u>

Investment income is comprised of the following for the years ended June 30, 2019 and 2018:

	<b>June 30, 2019</b>		
	<b>Without donor</b>	<b>With donor</b>	<b>Total</b>
	<b>restrictions</b>	<b>restrictions</b>	<b></b>
Dividends and interest, net of fees	\$ 1,719,627	\$ 4,057,292	\$ 5,776,919
Realized gains, net	4,190,679	13,476,432	17,667,111
Unrealized gains (losses), net	<u>7,297,467</u>	<u>(8,298,429)</u>	<u>(1,000,962)</u>
Total	<u>\$ 13,207,773</u>	<u>\$ 9,235,295</u>	<u>\$ 22,443,068</u>

	<b>June 30, 2018</b>		
	<b>Without donor</b>	<b>With donor</b>	<b>Total</b>
	<b>restrictions</b>	<b>restrictions</b>	<b></b>
Dividends and interest, net of fees	\$ 1,870,709	\$ 3,117,041	\$ 4,987,750
Realized gains, net	5,381,411	12,939,369	18,320,780
Unrealized gains, net	<u>4,117,383</u>	<u>9,501,018</u>	<u>13,618,401</u>
Total	<u>\$ 11,369,503</u>	<u>\$ 25,557,428</u>	<u>\$ 36,926,931</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>2019</b>	<b>2018</b>
Held by others:		
With donor restrictions	\$ 5,088,686	\$ 26,357,904
Held by the Foundation:		
With donor restrictions	<u>714,001</u>	<u>684,055</u>
Total assets held in trust	<u>\$ 5,802,687</u>	<u>\$ 27,041,959</u>

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During the year ended June 30, 2019, an agreement for assets held in trust by others in the amount of \$19,623,936 was modified and restructured by the donor to be a pledge over the next ten years.

Certain changes in funds held in trust are comprised of the following for the years ended June 30, 2019 and 2018, respectively, and are reported as increases/decreases in contributions received.

	<u>With donor restrictions</u>	<u>Totals</u>	
		<u>2019</u>	<u>2018</u>
Held by Foundation	\$ 77,274	\$ 77,274	\$ 66,655
Held by others	<u>(19,638,717)</u>	<u>(19,638,717)</u>	<u>879,821</u>
	<u><u>\$(19,561,443)</u></u>	<u><u>\$(19,561,443)</u></u>	<u><u>\$ 946,476</u></u>

Distributions received from funds held in trust by others were recognized as donor restricted contributions in the amount of \$1,630,499 and \$1,702,727 for the years ended June 30, 2019 and 2018, respectively.

Distributions and other expenses paid from funds held in trust by the Foundation are included as expenses on the statements of activities and totaled \$13,264 and \$10,121 for the years ended June 30, 2019 and 2018, respectively.

## 5. Contributions Receivable

The Foundation has recognized unconditional promises to give as contributions receivable due to be collected as follows as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 27,552,421	\$ 13,681,025
Receivable in one to five years	37,007,711	35,092,138
Receivable in six to ten years	14,202,249	3,928,213
Receivable in more than ten years	<u>162,019</u>	<u>580,454</u>
	<u>78,924,400</u>	<u>53,281,830</u>
Allowance for uncollectible pledges	(13,457,365)	(13,617,020)
Discount for time value of money	<u>(16,806,652)</u>	<u>(8,997,168)</u>
Contributions receivable, net	<u><u>\$ 48,660,383</u></u>	<u><u>\$ 30,667,642</u></u>

This discount to net present value was calculated using the estimated earnings rate of 8.32% as of June 30, 2019 and 2018.

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**6. Fixed Assets**

Fixed assets are composed of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 12,371	\$ 12,371
Computer software	180,389	100,389
Vehicles	44,116	44,116
Leasehold improvements	<u>1,708,328</u>	<u>1,708,328</u>
Total fixed assets	1,945,204	1,865,204
Accumulated depreciation and amortization	<u>(590,740)</u>	<u>(242,457)</u>
Fixed assets	<u>\$ 1,354,464</u>	<u>\$ 1,622,747</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$348,283 and \$122,712, respectively.

**7. Notes Payable**

Notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
An agreement with the University of South Carolina Alumni Association (the "Association") to invest up to \$2,450,000 at guaranteed rates up to 2.75% until the Association requests the funds.	\$ 1,870,000	\$ -
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 outstanding balance on the agreement was repaid during the year ended June 30, 2019.	-	4,000,000
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 1.2%. The entire outstanding principal balance, along with any outstanding accrued interest is due on June 25, 2021.	<u>6,713,004</u>	<u>5,933,004</u>
	<u>\$ 8,583,004</u>	<u>\$ 9,933,004</u>

Maturities of notes payable are as follows for the years ending June 30:

2020	\$ 1,870,000
2021	<u>6,713,004</u>
	<u>\$ 8,583,004</u>

As a result of these agreements, the Foundation recognized interest expense of \$310,094 and \$198,973 for the years ended June 30, 2019 and 2018, respectively.

## **8. 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, 2019, the outstanding principal balance was \$3,687,133.

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, 2019, the outstanding principal balance was \$1,214,351.

The Foundation has guaranteed under a guaranty agreement the repayment of seventy-five percent of a \$30,000,000 line of credit taken out by the USC Development Foundation. As of June 30, 2019, the outstanding principal balance was \$20,501,374.

## **9. Board Designated Funds**

Quasi-endowments have been designated totaling \$8,844,182 and \$8,937,531 at June 30, 2019 and 2018, 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.

## **10. Net Assets With Donor Restrictions**

At June 30, 2019, net assets with donor restrictions are available for the following specific program services:

Contributions receivable	\$ 48,660,383
Awaiting full endowment level and temporary investment earnings	53,536,548
Annuity and life trust agreements	<u>7,950,277</u>
	<u>\$ 110,147,208</u>

Net assets released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors were \$13,746,547 and \$11,175,724 for the years ended June 30, 2019 and 2018, respectively.

Net assets with donor restrictions held in perpetuity of \$304,919,112 at June 30, 2019 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 endowments held in perpetuity. These negative balances amounted to \$905,562 and \$694,403 and at June 30, 2019 and 2018, respectively. Management believes that these declines are temporary.



## **11. Operating Leases**

The Foundation has an operating lease for certain equipment to be used for teaching and research at the McNair Center at the University of South Carolina. A final payment in the amount of \$212,500 is due in December 2019.

Additionally, the Foundation has multiple operating leases for certain rental spaces. The payments on these leases ranged from \$400 to \$14,237 and are due monthly. Rent expense for the year ended June 30, 2019 and 2018 was \$558,269 and \$331,761, respectively.

Future payments under these leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 408,381
2021	221,172
2022	226,696
2023	<u>153,632</u>
	<u>\$ 1,009,881</u>

## **12. 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.

### ***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 net assets with restrictions held in perpetuity (a) the original value of gifts donated to the endowment held in perpetuity, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the endowment held in perpetuity 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 held in perpetuity is classified as with donor restricted net assets with a time or donor restriction 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.

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Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Total net assets	\$ 90,093,437	\$446,447,658	\$ 536,541,095
Less, Other funds not meeting endowment definition	<u>(81,295,173)</u>	<u>(64,284,594)</u>	<u>(145,579,767)</u>
Total endowment	<u>\$ 8,844,182</u>	<u>\$382,163,064</u>	<u>\$ 390,961,328</u>

Changes in endowment net assets for the year ended June 30, 2019 and 2018 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Ending endowment net asset balance – June 30, 2017	\$ 7,476,622	\$348,340,768	\$ 355,817,390
Investment return	606,024	26,696,655	27,302,679
Contributions	1,612,682	9,582,067	11,194,749
Other revenue	22,103	84,382	106,485
Net assets released from restrictions	-	(3,002,269)	(3,002,269)
Appropriation of endowment assets for expenditures	<u>(779,900)</u>	<u>(8,210,268)</u>	<u>(8,990,168)</u>
Ending endowment net asset balance – June 30, 2018	8,937,531	373,491,335	382,428,866
Investment return	203,386	9,200,626	9,404,012
Contributions	355,448	10,776,404	11,131,852
Other revenue	79,369	104,528	183,897
Net assets released from restrictions	-	(2,507,097)	(2,507,097)
Appropriation of endowment assets for expenditures	<u>(777,470)</u>	<u>(8,902,732)</u>	<u>(9,680,202)</u>
Ending endowment net asset balance – June 30, 2019	<u>\$ 8,798,264</u>	<u>\$382,163,064</u>	<u>\$ 390,961,328</u>

***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 net assets with donor restrictions were (\$905,562) and (\$1,611,541) as of June 30, 2019 and 2018, 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.

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***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.

***Spending policy and how the investment objectives relate to spending policy***

The Foundation has a policy of appropriating for distribution each year 4.25% 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.

**13. Liquidity and Availability**

The Foundation's management structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30, 2019:

Cash and cash equivalents	\$ 13,638,744
Accounts receivable:	
University of South Carolina	949,799
University of South Carolina Development Foundation	5,591,515
Other	75,267
Notes receivable:	
University of South Carolina Alumni Association	5,933,004
Contributions receivable (less than one year)	27,552,421
Investments	477,646,887
Less: investments in partnerships	(6,716,032)
Less: investments not readily marketable	(10,199,067)
	<u>\$ 514,472,538</u>

**14. 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 \$30,367,140 and \$26,507,858 for the years ended June 30, 2019 and 2018, respectively. The Foundation had accounts payable to the University in the amount of \$7,359,679 and \$8,313,374 at June 30, 2019 and 2018, 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 \$295,867 and \$282,583 for 2019 and 2018, respectively.

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***University Specialty Clinics***

Salary supplements for certain University employees were paid in the amount of \$528,641 and \$528,141 for 2019 and 2018, respectively.

***University of South Carolina 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, 2019 and 2018 and \$325,000 for real estate related expenses on behalf of the University.

The Foundation incurred expenses totaling \$530,669 and \$424,865 on behalf of the USC Development Foundation for various operational costs, including salary support, equipment, investment advisory fees, and other costs for the years ended June 30, 2019 and 2018, respectively. Of this total, \$428,291 and \$387,040 is still owed by the University of South Carolina Development Foundation at June 30, 2019 and 2018, respectively.

The Foundation recorded receivables in the amount of \$150,000 at June 30, 2018, for the Debt Guaranty fees due from the University of South Carolina Development Foundation. There were no amounts due as of June 30, 2019 related to the Debt Guaranty fees. Additionally, the Foundation recorded \$5,000,000 and \$4,000,000 at June 30, 2019 and 2018, respectively, for a cash advance related to a potential purchase of real estate owned by the University of South Carolina Development Foundation, recorded in accounts receivable on the statements of financial position.

***Short-term library advance***

Under this agreement, the Foundation has agreed to advance up to \$3,000,000 to the University Library for construction costs and interior furnishing with an interest rate of 2%. The library owed \$932,947 and \$1,171,257 to the Foundation at June 30, 2019 and 2018, respectively. These funds will be repaid over time by the University 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 with interest payments due monthly beginning in December 2013. As of June 30, 2019 and 2018, the outstanding balance is \$5,933,004. This loan is due on October 22, 2020.

***Alumni Association Services***

The Foundation entered into an agreement with the Alumni Association for the purpose of receiving, managing and administering certain private philanthropy for the benefit of the University and to provide accounting services for the Alumni Association. As of June 30, 2019 and 2018, the Foundation has a receivable of \$15,000 and \$0, respectively, from the Alumni Association.

***Alumni Association Note Payable***

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

***Funds held for the Educational Foundation of USC Lancaster***

At June 30, 2019 and 2018, the Foundation held for the Educational Foundation of USC Lancaster \$9,340,018 and \$9,233,029, respectively.

***Funds held for the USC Alumni Association***

At June 30, 2019 and 2018, the Foundation held for the USC Alumni Association \$9,899 and \$2,196,495, respectively.

***Guaranties of Debt of the USC Development Foundation***

The provisions of the guaranties of debt of the USC Development Foundation are described in *Note 8*.

***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, 2019, and 2018, the outstanding receivable was \$4,300,674 and \$4,176,327, respectively.

**15. Subsequent Events**

Subsequent events were evaluated through September 11, 2019, which is the date the financial statements were available for issue.