

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION
AND SUBSIDIARIES**

**REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The University of South Carolina
Development Foundation and Subsidiaries
Columbia, South Carolina

We have audited the accompanying consolidated statements of financial position of The University of South Carolina Development Foundation and Subsidiaries (the Foundation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of South Carolina Development Foundation and Subsidiaries as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information provided in the Supplemental Schedules is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Elliott Davis LLC

Columbia, South Carolina
October 25, 2011

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	JUNE 30,	
	2011	2010
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 5,926,609	\$ 5,959,481
Investments in securities	24,772,523	15,658,005
Contributions receivable	2,387,855	3,076,572
Other receivables	318,420	220,475
Prepaid expenses	31,170	16,293
Property and equipment, net	16,542,876	16,871,899
Real estate held	30,318,279	30,254,099
Other assets	253,076	75,714
	\$ 80,550,808	\$ 72,132,538
Total assets		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,892,374	\$ 2,424,850
Lines-of-credit	16,327,279	17,287,761
Notes payable	9,988,000	13,209,837
Bonds payable	19,135,000	9,970,000
Funds held for others	17,866	17,866
	47,360,519	42,910,314
Total liabilities		
NET ASSETS		
Unrestricted net assets		
Board designated for investments	16,659,333	13,089,864
Undesignated	(6,935,484)	(6,583,575)
	9,723,849	6,506,289
Total unrestricted net assets		
Temporarily restricted net assets	20,430,543	19,751,246
Permanently restricted net assets	3,365,928	3,365,928
	33,520,320	29,623,463
Total Foundation net assets		
Noncontrolling interest	(330,031)	(401,239)
	33,190,289	29,222,224
Total net assets		
Total liabilities and net assets	\$ 80,550,808	\$ 72,132,538

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Investment returns	\$ 3,742,853	\$ 390,946	\$ -	\$ 4,133,799
Rental income	835,230	1,200	-	836,430
Room revenue	2,231,233	-	-	2,231,233
Gain on sale of assets	2,933	-	-	2,933
Other	908,524	-	-	908,524
Support	363,246	333,882	-	697,128
Net assets released from restrictions	<u>46,731</u>	<u>(46,731)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>8,130,750</u>	<u>679,297</u>	<u>-</u>	<u>8,810,047</u>
EXPENSES AND LOSSES				
Supporting services				
Management and general	395,872	-	-	395,872
USC Hotel Associates	3,041,232	-	-	3,041,232
Program services				
Investment services	445,291	-	-	445,291
Property services	<u>959,587</u>	<u>-</u>	<u>-</u>	<u>959,587</u>
Total expenses	<u>4,841,982</u>	<u>-</u>	<u>-</u>	<u>4,841,982</u>
INCREASE IN NET ASSETS	3,288,768	679,297	-	3,968,065
NET DECREASE ATTRIBUTABLE TO NONCONTROLLING INTEREST IN USC HOTEL ASSOCIATES, LLC				
	<u>(71,208)</u>	<u>-</u>	<u>-</u>	<u>(71,208)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO THE FOUNDATION	<u>\$ 3,217,560</u>	<u>\$ 679,297</u>	<u>\$ -</u>	<u>\$ 3,896,857</u>

The accompanying notes are an integral part of this consolidated financial statement.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Investment returns	\$ 1,815,015	\$ 58,145	\$ -	\$ 1,873,160
Rental income	1,172,289	2,400	-	1,174,689
Room revenue	1,912,080	-	-	1,912,080
Other	1,082,254	-	-	1,082,254
Support	39,869	2,956,173	-	2,996,042
Net assets released from restrictions	1,444,418	(1,444,418)	-	-
Total revenues and support	<u>7,465,925</u>	<u>1,572,300</u>	<u>-</u>	<u>9,038,225</u>
EXPENSES				
Supporting services				
Management and general	383,916	-	-	383,916
USC Hotel Associates	2,749,356	-	-	2,749,356
Program services				
Investment services	1,629,225	-	-	1,629,225
Property services	2,884,398	-	-	2,884,398
Loss on disposal of assets	10,000	-	-	10,000
Total expenses	<u>7,656,895</u>	<u>-</u>	<u>-</u>	<u>7,656,895</u>
INCREASE (DECREASE) IN NET ASSETS	(190,970)	1,572,300	-	1,381,330
NET DECREASE ATTRIBUTABLE TO NONCONTROLLING INTEREST IN USC HOTEL ASSOCIATES, LLC	<u>172,969</u>	<u>-</u>	<u>-</u>	<u>172,969</u>
INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO THE FOUNDATION	<u>\$ (18,001)</u>	<u>\$ 1,572,300</u>	<u>\$ -</u>	<u>\$ 1,554,299</u>

The accompanying notes are an integral part of this consolidated financial statement.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET ASSETS**

	The University of South Carolina Development Foundation					
	Net Assets					
	Unrestricted Board Designated	Unrestricted Undesignated	Temporarily Restricted	Permanently Restricted	Noncontrolling Interest	Total
BALANCE, JULY 1, 2009	\$ 11,686,590	\$ (5,165,385)	\$ 18,182,031	\$ 3,365,928	\$ (228,270)	\$ 27,840,894
Change in net assets	1,400,189	(1,418,190)	1,572,300	-	(172,969)	1,381,330
Transfers	<u>3,085</u>	<u>-</u>	<u>(3,085)</u>	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE, JUNE 30, 2010	13,089,864	(6,583,575)	19,751,246	3,365,928	(401,239)	29,222,224
Change in net assets	<u>3,569,469</u>	<u>(351,909)</u>	<u>679,297</u>	<u>-</u>	<u>71,208</u>	<u>3,968,065</u>
BALANCE, JUNE 30, 2011	<u><u>\$ 16,659,333</u></u>	<u><u>\$ (6,935,484)</u></u>	<u><u>\$ 20,430,543</u></u>	<u><u>\$ 3,365,928</u></u>	<u><u>\$ (330,031)</u></u>	<u><u>\$ 33,190,289</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the years ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,968,065	\$ 1,381,330
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for uncollectible pledges	255,796	124,860
Discount on pledges receivable	(120,679)	(119,270)
Net realized and unrealized gains on investments	(4,108,142)	(1,864,059)
(Gain)/loss on sale/disposal of fixed assets	(2,933)	10,000
Depreciation expense	459,644	642,565
Changes in deferred and accrued amounts		
Decrease (increase) in other receivables	(97,945)	82,743
Decrease in contributions receivables	553,600	396,338
Decrease (increase) in prepaid expenses and other escrow	(14,877)	2,505
Decrease (increase) in other assets	(177,362)	8,495
Increase (decrease) in accounts payable and accrued expenses	(532,476)	672,840
Net cash provided by operating activities	182,691	1,338,347
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	699,325	239,052
Proceeds from sale of assets	16,182	-
Purchase of real estate held	(64,180)	(638)
Purchase of investments in securities	(5,705,701)	(239,052)
Purchase of property and equipment	(143,870)	(26,450)
Net cash used for investing activities	(5,198,244)	(27,088)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments)/borrowings on line-of-credit agreements	(960,482)	990,000
Proceeds from bonds payable	19,135,000	-
Principal payments on bonds payable	(9,970,000)	-
Proceeds from notes payable	9,970,000	-
Principal payments on notes payable	(13,191,837)	(436,689)
Net cash provided by investing activities	4,982,681	553,311
Net change in cash and cash equivalents	(32,872)	1,864,570
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,959,481	4,094,911
END OF YEAR	\$ 5,926,609	\$ 5,959,481
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 1,076,623	\$ 1,049,110
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized (gain) loss on interest rate swap	\$ (143,758)	\$ 523,148

The accompanying notes are an integral part of these consolidated financial statements.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The University of South Carolina Development Foundation and Subsidiaries have been prepared on the accrual basis of accounting. The significant accounting policies are as follows:

Foundation and purpose

The University of South Carolina Development Foundation and Subsidiaries (the Foundation) was organized on May 17, 1965, under the laws of South Carolina as an eleemosynary corporation. The primary purposes of the Foundation are to acquire real and personal property; and to hold, rent, sell, or transfer such property in accordance with the needs and demands of the University of South Carolina (the University). Because the primary purpose of the Foundation is for the benefit of the University, the Foundation is considered a component unit of the University and is thus included in the University's financial statements.

On November 7, 1991, the corporate name of the Foundation was changed from Carolina Research and Development Foundation to The University of South Carolina Development Foundation.

Principles of consolidation

The consolidated financial statements include the accounts of The University of South Carolina Development Foundation, and it's wholly owned subsidiaries, Inn at USC, LLC; CDRC, LLC; Wheeler Hill Development, LLC; Adesso-DF, LLC; USC DF Waccamaw, LLC; Longleaf Environmental, LLC; Williams At Blossom, LLC; and it's 80% owned subsidiary USC Hotel Associates, LLC. The Foundation accounts for its 49% ownership in Adesso/Columbia, LLC on the equity method. All material inter-organization transactions have been eliminated.

Basis of accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (ASC). Under the ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

For financial reporting purposes, cash and cash equivalents are defined as cash and short-term highly liquid investments that are readily convertible into cash and present an insignificant risk of change in value due to interest rate changes because of their short-term maturity.

Investments in securities

The Foundation's investments in securities are stated at fair market value in accordance with the ASC. Under the ASC, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in investment returns.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Derivative financial instruments

The Foundation recognizes all derivative financial instruments on the balance sheets at fair value in accordance with the ASC. The fair value is obtained from the financial institution issuing the instrument. Changes in the value of derivative financial instruments are recorded each period in current earnings.

The Foundation entered into an interest rate swap agreement, which effectively exchange variable interest rate debt for fixed interest rate debt. The agreement is used to reduce the exposure to possible increases in interest rates and is accounted for as a cash flow hedge. The Foundation entered into this swap agreement with a major financial institution. Interest rate swap settlements are recognized as adjustments to interest expense in the consolidated statements of activities. Management believes that the derivative financial instruments are effective in protecting the Foundation from interest fluctuations.

Contributions

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 the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using discount rates applicable to the years in which the promises are to be received.

Other receivables

Management considers all other receivables balances to be fully collectible; therefore, no allowance for uncollectible accounts is included in the consolidated financial statements.

Property and equipment

Property and equipment acquired by purchase is stated at cost. Donated property is stated at estimated fair value at the date of the donation. Depreciation and amortization is computed using the straight-line and accelerated methods over the estimated useful lives of the respective assets as follows:

Land improvements	15 years
Buildings	40 years
Furniture, fixtures and equipment	5-7 years
Aircraft	5 years

Income taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Further, it is exempt from excise taxes and other restrictions because it has been determined by the Internal Revenue Service that the Foundation is not a private foundation within the meaning of the Internal Revenue Code Section 509(a). The Foundation recognizes income tax on certain unrelated business income under rules of the Internal Revenue Service for nonprofit organizations, except as exempted by Section 514, for activities related to its mission to support the University.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income taxes

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be substantiated upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for the years prior to 2007.

Estimates

The preparation of consolidated 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 25, 2011, the date the financial statements were available for issue.

Reclassifications

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

NOTE 2 - CONCENTRATIONS OF CREDIT RISKS

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents are maintained at high-quality financial institutions and credit exposure to any one institution is limited. The Foundation has not experienced any losses on its cash and cash equivalents. The Foundation's management believes that its investments do not represent significant concentrations of market risk because the Foundation's investment portfolio is adequately diversified among issuers.

NOTE 3 - FAIR VALUE MEASUREMENTS

The FASB established a framework for measuring fair value. That framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The framework also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury Securities.

(Continued)

NOTE 3 - FAIR VALUE MEASUREMENTS, Continued

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

The following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2011 and 2010:

Money market funds: Valued at amortized cost. The carrying amount of such instruments is deemed to be a reasonable estimate of fair value.

Mutual and equity funds: Valued at the net asset value (NAV) of underlying shares held at year end.

Hedge funds and private equity funds: Valued at fair market 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.

Interest rate swap: Valued at the carrying value of the interest rate swap, based on the interest rate spread between the underlying contracts and current market interest rates.

The Foundation had the following levels of investments as defined in the framework measured on a recurring basis:

	<u>June 30, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in securities:				
Active Manager Equities				
Large Cap Value	\$ 3,730,498	\$ -	\$ -	\$ 3,730,498
Small Cap Growth	1,613,519	-	-	1,613,519
Common Fund Equities				
Large Cap Growth	2,872,582	-	-	2,872,582
ETF Index Equities	3,188,831	-	-	3,188,831
International Equities	4,050,523	-	-	4,050,523
Money Market Mutual Fund	5,133,827	-	-	5,133,827
Hedge Funds	-	-	1,851,670	1,851,670
Hedge Fund of Funds	-	-	1,506,028	1,506,028
Private Equities	-	-	825,045	825,045
Total investments in securities	<u>\$ 20,589,780</u>	<u>\$ -</u>	<u>\$ 4,182,743</u>	<u>\$ 24,772,523</u>
Interest rate swap	<u>\$ -</u>	<u>\$ (1,186,512)</u>	<u>\$ -</u>	<u>\$ (1,186,512)</u>

(Continued)

NOTE 3 - FAIR VALUE MEASUREMENTS, Continued

	Level 3			
	Hedge Funds	Hedge Fund of Funds	Private Equity	Total
Beginning balance	\$ 1,645,629	\$ 1,337,213	\$ 731,221	\$ 3,714,063
Total unrealized gains	206,041	168,815	87,108	461,964
Purchases, issuances, and settlements	-	-	35,415	35,415
Return of capital	-	-	(28,699)	(28,699)
Ending balance	<u>\$ 1,851,670</u>	<u>\$ 1,506,028</u>	<u>\$ 825,045</u>	<u>\$ 4,182,743</u>

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Investment in securities:				
Active Manager Equities				
Large Cap Value	\$ 2,985,280	\$ -	\$ -	\$ 2,985,280
Small Cap Growth	1,135,670	-	-	1,135,670
Common Fund Equities				
Large Cap Growth	2,142,184	-	-	2,142,184
ETF Index Equities	2,941,803	-	-	2,941,803
International Equities	2,611,555	-	-	2,611,555
Money Market Mutual Fund	127,450	-	-	127,450
Hedge Funds	-	-	1,645,629	1,645,629
Hedge Fund of Funds	-	-	1,337,213	1,337,213
Private Equities	-	-	731,221	731,221
Total investment in securities	<u>\$ 11,943,942</u>	<u>\$ -</u>	<u>\$ 3,714,063</u>	<u>\$ 15,658,005</u>
Interest rate swap	<u>\$ -</u>	<u>\$ (1,330,270)</u>	<u>\$ -</u>	<u>\$ (1,330,270)</u>

	Level 3			
	Hedge Funds	Hedge Fund of Funds	Private Equity	Total
Beginning balance	\$ 1,433,217	\$ 1,215,044	\$ 415,257	\$ 3,063,518
Total unrealized gains	212,412	122,169	76,911	411,492
Total realized gains	-	-	22,102	22,102
Purchases, issuances, and settlements	-	-	216,951	216,951
Ending balance	<u>\$ 1,645,629</u>	<u>\$ 1,337,213</u>	<u>\$ 731,221</u>	<u>\$ 3,714,063</u>

NOTE 4 - INVESTMENTS IN SECURITIES

Investments purchased are recorded at cost. Securities or other investments donated are recorded at their fair value at the date of the gift. Investments are carried at fair value with gains or losses being recognized and reported in the statement of activities in the appropriate classes as prescribed by the ASC.

The Foundation pooled substantially all of their endowment funds along with funds of the Educational Foundation, Business Partnership Foundation and the Alumni Association into one investment pool. The funds of the Foundation in the investment pool are spread among fourteen different funds, of those, three are hedge funds, one is a private equity fund, one is a index fund, four are active manager funds, three are mutual funds and one is a common fund.

(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES, Continued

The Foundation's cost and fair value of investments are as follows at June 30:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Temporary Investment Funds	\$ 5,133,827	\$ 5,133,827	\$ 127,450	\$ 127,450
Pooled Investment Funds	<u>16,228,021</u>	<u>19,638,696</u>	<u>15,234,802</u>	<u>15,530,555</u>
Total	<u>\$ 21,361,848</u>	<u>\$ 24,772,523</u>	<u>\$ 15,362,252</u>	<u>\$ 15,658,005</u>

The components of investment returns are as follows for the years ended June 30:

	<u>2011</u>		<u>2010</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Interest and dividends	\$ 2,265	\$ 263,912	\$ 233,730	\$ 5,355
Realized gains	1,066,574	35,979	554,472	18,339
Unrealized gains	2,722,194	91,055	1,074,981	34,451
Investment expenses	<u>(48,180)</u>	<u>-</u>	<u>(48,168)</u>	<u>-</u>
Total returns	<u>\$ 3,742,853</u>	<u>\$ 390,946</u>	<u>\$ 1,815,015</u>	<u>\$ 58,145</u>

The following table shows cross unrealized losses and fair value of investments in an unrealized loss position at June 30, 2011 and 2010. The information below is aggregated by investment and length of time that individual investments have been in a continuous unrealized loss position at June 30:

	<u>2011</u>					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>
Dodge & Cox International Value	\$ -	\$ -	\$ 1,080,462	\$ (304,568)	\$ 1,080,462	\$ (304,568)
Dimensional Fund Advisors	<u>642,695</u>	<u>(24,235)</u>	<u>-</u>	<u>-</u>	<u>642,695</u>	<u>(24,235)</u>
	<u>\$ 642,695</u>	<u>\$ (24,235)</u>	<u>\$ 1,080,462</u>	<u>\$ (304,568)</u>	<u>\$ 1,723,157</u>	<u>\$ (328,803)</u>
	<u>2010</u>					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>
Artisan	\$ -	\$ -	\$ 812,062	\$ (79,407)	\$ 812,062	\$ (79,407)
EuroPacific	-	-	973,537	(51,990)	973,537	(51,990)
Westfield	-	-	1,135,670	(487,966)	1,135,670	(487,966)
Dodge & Cox International Value	-	-	825,956	(544,733)	825,956	(544,733)
Russell 2000 Value Index Fund	<u>596,618</u>	<u>(124,359)</u>	<u>-</u>	<u>-</u>	<u>596,618</u>	<u>(124,359)</u>
	<u>\$ 596,618</u>	<u>\$ (124,359)</u>	<u>\$ 3,747,225</u>	<u>\$ (1,164,096)</u>	<u>\$ 4,343,843</u>	<u>\$ (1,288,455)</u>

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The Foundation had recognized unconditional promises to give as contributions receivable due to be collected as follows as of June 30:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 1,441,461	\$ 1,152,716
One to five years	3,022,225	3,807,057
Six or more years	<u>187,205</u>	<u>244,718</u>
	4,650,891	5,204,491
Less allowance for uncollectible pledges	1,513,838	1,258,042
Less 8% discount for time value of money	<u>749,198</u>	<u>869,877</u>
	<u><u>\$ 2,387,855</u></u>	<u><u>\$ 3,076,572</u></u>

NOTE 6 - ENDOWMENTS

The Foundation's endowment fund consists of approximately seven individual funds established for various purposes. It includes donor-restricted contributions. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, 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 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.

(Continued)

NOTE 6 - ENDOWMENTS, Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 410,150	\$ 3,365,928	\$ 3,776,078
Board-restricted endowment funds	16,659,333	-	-	16,659,333
	<u>\$ 16,659,333</u>	<u>\$ 410,150</u>	<u>\$ 3,365,928</u>	<u>\$ 20,435,411</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ 13,089,864	\$ 280,734	\$ 3,365,928	\$ 16,736,526
Investment return:				
Investment income	186,085	6,255	-	192,340
Net appreciation (realized and unrealized)	3,788,768	127,033	-	3,915,801
Total investment return	3,974,853	133,288	-	4,108,141
Contributions/additions	-	1,200	-	1,200
Appropriation of endowment assets for expenditure	(405,384)	(5,072)	-	(410,456)
Endowment net assets, end of year	<u>\$ 16,659,333</u>	<u>\$ 410,150</u>	<u>\$ 3,365,928</u>	<u>\$ 20,435,411</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 280,734	\$ 3,365,928	\$ 3,646,662
Board-restricted endowment funds	13,089,864	-	-	13,089,864
	<u>\$ 13,089,864</u>	<u>\$ 280,734</u>	<u>\$ 3,365,928</u>	<u>\$ 16,736,526</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ 11,669,451	\$ 227,936	\$ 3,365,928	\$ 15,263,315
Investment return:				
Investment income	156,610	5,160	-	161,770
Net appreciation (realized and unrealized)	1,629,453	52,790	-	1,682,243
Total investment return	1,786,063	57,950	-	1,844,013
Contributions/additions	-	2,400	-	2,400
Transfers	3,085	(3,085)	-	-
Appropriation of endowment assets for expenditure	(368,735)	(4,467)	-	(373,202)
Endowment net assets, end of year	<u>\$ 13,089,864</u>	<u>\$ 280,734</u>	<u>\$ 3,365,928</u>	<u>\$ 16,736,526</u>

(Continued)

NOTE 6 - ENDOWMENTS, Continued

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. There were no such deficiencies as of June 30, 2011 and 2010.

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 4.50% payout and 1% 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) 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 4.50% of its endowment fund's average fair value over the prior five quarters through the calendar year-end 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 8% to 10% 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.

NOTE 7 - ENDOWMENT FUND

A quasi-endowment fund was established in 1985 by the Board whereby the earnings generated by the fund would be used for certain projects at the University. In a quasi-endowment fund, any portion of the fund may be expended, and since 1985, the fund has been supplemented and used for various projects at the discretion of the Board.

The fund is managed by various investment management firms and is held in short-term government money-market accounts, corporate stocks and equity mutual funds. Investment gains or losses increase or decrease the fund.

NOTE 8 - REAL ESTATE HELD

Real estate held is acquired by purchase or donation and is reported at either cost if purchased or fair value at the time of the donation. Real estate purchased and unrestricted donated real estate is held for subsequent lease or transfer to the University.

Included in real estate held is property on the South Carolina coast known as Pritchard's Island (the Island) valued at \$3,100,000. The donor placed a restriction on the property which requires the Island to be maintained in its wilderness state. The property is presently being used by the University as a research environment for the study of various types of animals.

The remaining balance of real estate held primarily includes property throughout the state of South Carolina.

NOTE 9 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment at cost or fair value when donated and accumulated depreciation is as follows as of June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,782,737	\$ 3,782,737
Land improvements	618,416	618,416
Buildings	14,774,402	14,790,402
Furniture, fixtures and equipment	2,077,109	2,028,131
Aircraft	<u>2,108,143</u>	<u>2,055,038</u>
	23,360,807	23,274,724
Less accumulated depreciation	<u>6,817,931</u>	<u>6,402,825</u>
	<u>\$ 16,542,876</u>	<u>\$ 16,871,899</u>

Depreciation expense in the amount of \$459,644 and \$642,565 was included in total expenses for the years ended June 30, 2011 and 2010, respectively.

NOTE 10 - LINES-OF-CREDIT

Lines of credit consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
An unsecured line of credit totaling \$15,000,000 with a bank, maturing on August 12, 2011, interest at 30 day LIBOR (.19% at June 30, 2011) plus 1.45%. The Foundation is currently negotiating a new line of credit agreement.	\$ 14,871,533	\$ 12,852,876
An unsecured line of credit totaling \$2,000,000 with a bank, maturing on July 23, 2010, interest at 30 day LIBOR (.19% at June 30, 2011) plus 1.30%. Subsequent to June 30, 2010, the line of credit was extended 60 days. The Foundation is currently negotiating a new line of credit agreement.	1,279,875	1,249,875

(Continued)

NOTE 10 - LINES-OF-CREDIT, Continued

	<u>2011</u>	<u>2010</u>
An unsecured line of credit totaling \$8,700,000 with a bank, matured on March 31, 2011, interest at 30 day LIBOR plus 1.30%.	-	3,085,010
An unsecured line of credit totaling \$200,000 with a bank, interest at prime (3.25% at June 30, 2011), but not less than 5.50%. The line of credit matured on January 13, 2011. On February 3, 2011, a new unsecured line of credit with a bank was entered into, in the amount of \$300,000, interest at 5.00%. The line of credit matures on February 3, 2012.		<u>175,871</u> <u>100,000</u>
	<u>\$ 16,327,279</u>	<u>\$ 17,287,761</u>

NOTE 11 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
A note in the amount of \$2,350,783 payable to a bank in 59 monthly payments of \$16,316, including interest at 5.50% per year and one balloon payment of \$2,002,567 on March 1, 2013, collateralized by the real property at 1530 Wheat Street, Columbia, South Carolina. This note was refinanced under the new term bond effective December 1, 2010. \$	-	\$ 2,196,137
An unsecured note in the amount of \$700,000, accrued interest, recalculated on the first day of the month, at 90 day LIBOR (.25% at June 30, 2011) plus 1.50%, due monthly with the principal balance of \$700,000 due December 21, 2010. This note was refinanced under the new term bond effective December 1, 2010.	-	700,000
A note in the amount of \$11,100,000, accrues interest at 30 day LIBOR (.19% at June 30, 2011) plus 1%, due monthly and a balloon payment of \$7,092,900 plus accrued interest due February 4, 2018, collateralized by the leasehold interest, building and personal property at Pendleton Street, Columbia, South Carolina. The effective interest rate for this note is fixed at 5.47% per the interest rate swap agreement as noted below.	<u>9,988,000</u>	<u>10,313,700</u>
	9,988,000	13,209,837
Less current maturities	<u>374,400</u>	<u>1,098,355</u>
	<u>\$ 9,613,600</u>	<u>\$ 12,111,482</u>

(Continued)

NOTE 11 - NOTES PAYABLE, Continued

Future scheduled maturities of notes payable are as follows for the year ending June 30:

2012	\$ 374,400
2013	398,000
2014	419,200
2015	442,800
2016	467,200
Thereafter	<u>7,886,400</u>
	<u>\$ 9,988,000</u>

The floating interest rate for the \$9,988,000 note payable above at June 30, 2011 varies based on 30-day LIBOR plus 1%. The Foundation utilizes an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate debt. The swap agreement is a contract to exchange floating rates for fixed rate payments periodically over the life of the agreement without the exchange of the underlying notional amount. The swap agreement effectively fixed the interest rate applicable to the note described above at a rate of 5.47%.

Pursuant to the ASC, as amended, the swap agreement is reflected at fair value on the Foundation's consolidated balance sheet in accrued liabilities with the offset reflected in net assets through interest expense. The liability for the swap at June 30, 2011 and 2010 was \$1,186,512 and \$1,330,270, respectively.

NOTE 12 - BONDS PAYABLE

The Foundation issued \$10,000,000 of Tax Exempt Variable Rate Demand Bonds (the Bonds). The Bonds required monthly payments of interest only with all principal due on the maturity date of December 1, 2010. The Bonds were issued for the purpose of purchasing real estate for the University of South Carolina. A letter of credit was committed to the Foundation by the trustee of the Bond issuance to support the Bonds in the amount of \$10,000,000. The letter of credit provided a security for the repayment of up to \$10,000,000 in tax exempt bonds by the Foundation. The letter of credit was secured by a pledge of all proceeds and any real estate acquired with the proceeds. The bonds covenants required the Foundation to maintain a minimum level of unrestricted/undesignated net assets. The bonds were paid during the current year using proceeds from a \$9,970,000 short-term note payable. The short-term note was paid in full from proceeds of the December 2010 bond issuance.

During December 2010, the Foundation issued \$19,135,000 of Economic Development Revenue Bonds (the Bonds). The Bonds were issued for the purpose of purchasing real estate for the University of South Carolina and to refinance certain notes payable incurred by the Foundation. The annual debt service to maturity for the Bonds outstanding at June 30, 2011, including variable interest payments at 67% of libor plus 1.1% (1.23% at June 30, 2011) over the life of the Bonds are as follows:

<u>Year ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt service</u>
2012	\$ 445,000	\$ 245,863	\$ 690,863
2013	465,000	239,947	704,947
2014	485,000	233,773	718,773
2015	505,000	227,337	732,337
2016	525,000	220,643	745,643
2017 - 2021	2,980,000	993,065	3,973,065
2022 - 2026	3,670,000	777,075	4,447,075
2027 - 2031	4,515,000	512,038	5,027,038
2032 - 2036	<u>5,545,000</u>	<u>186,063</u>	<u>5,731,063</u>
	<u>\$ 19,135,000</u>	<u>\$ 3,635,804</u>	<u>\$ 22,770,804</u>

NOTE 13 - RELATED PARTY TRANSACTIONS

The Foundation has engaged in a significant volume of transactions with the University and its various departments and related organizations. For the years ended June 30, 2011 and 2010, the following amounts were paid to or received from the University:

The Foundation leases from the University parking spaces for Senate Plaza residents at a cost of \$28,440. As the lease agreement for the parking spaces does not have a specific expiration date, the minimum annual lease commitments for the next five years are as follows for the years ending June 30:

2012	\$	28,440
2013		28,440
2014		28,440
2015		28,440
2016		<u>28,440</u>
	\$	<u>142,200</u>

The Foundation allows the University to use a Cockaboose during football season, to host donor events. The Foundation provides the use of the Cockaboose free of charge to the University.

The Foundation (CDRC, LLC) leases floor space on the first floor of 1530 Wheat Street to the Children's Center at USC for child development at a cost of \$16,820 per month. During the year, with the addition of the new bond proceeds, the Foundation was able to refinance the debt associated with this property. As of February 2011, the lease amount has been reduced to \$12,420 per month. The minimum annual lease commitments for the next five years are as follows for the years ending June 30:

2012	\$	149,040
2013		149,040
2014		149,040
2015		149,040
2016		<u>149,040</u>
	\$	<u>745,200</u>

The Foundation leases floor space on the second floor of 1530 Wheat Street to the University at a cost of \$2,080 per month. The minimum annual lease commitments for the remaining term are as follows for the years ending June 30:

2012	\$	24,962
2013		<u>24,962</u>
	\$	<u>49,924</u>

The Foundation leases property at 350 Wayne Street to the University at a cost of \$8,871 per month. During the year the lease was cancelled and has not been renewed.

The Foundation was gifted a leasehold interest in an apartment next to the football stadium, which they allow the Athletics Department to use free of charge. The leasehold interest has a term of five years ending on August 31, 2012.

(Continued)

NOTE 13 - RELATED PARTY TRANSACTIONS, Continued

The Foundation owns thirty-five parking spaces at Stadium Place near the University football stadium. The Foundation allows the University to use twenty-five of these spaces in exchange for reimbursement of the Foundation's assessments and property taxes on these spaces. The agreement between the Foundation and the University commenced on November 5, 1997 for one year, and has since been renewed each year with the University. The agreement has no specific expiration date.

The Foundation provides aircraft leasing services to the University for various business purposes. Under the lease agreement, for the years ended June 30, 2011 and 2010, the Foundation charged a rate of \$1,373 per hour. The total revenue earned by the Foundation from the University for years ended June 30, 2011 and 2010 was \$335,823 and \$382,903, respectively.

The Foundation leases property at the corner of Greene and Pulaski streets to the University. The Foundation charged a rate of \$1,667 per month to the University. Total rent revenue earned by the Foundation from the University for both June 30, 2011 and 2010 was \$20,000. The term of the lease expired on December 31, 2010. The property is still leased on a month-to-month basis.

During the year ended June 30, 2010, the Foundation entered into a lease with the University for Williams At Blossom, LLC, to be used for baseball parking. The Foundation received rent revenue of \$89,889 and \$77,305 from the University for the years' ended June 30, 2011 and 2010, respectively.

The Foundation is currently leasing property at 707 Catawba Street to the University at a cost of \$9,762 per month. The lease expired September 30, 2010 with an option to extend as month-to-month for five years. As of June 30, 2011, the lease is still operating as a month-to-month agreement.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets that are available for specific program services totaled \$20,430,543 and \$19,751,246 at June 30, 2011 and 2010, respectively.

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$3,365,928 at June 30, 2011 and 2010 are restricted in perpetuity.

NOTE 16 - CHILD DEVELOPMENT/RESEARCH CENTER

CDRC, LLC, a Limited Liability Corporation (100% owned by the Foundation) constructed a Child Development Research Center that is devoted to research in matters related to early childhood education. The Research Center is built on land owned by CDRC, LLC and consists of two floors. The first floor of the Center is leased to the Children's Center at USC, LLC, for child development and the second floor of the Center is used by the University of South Carolina.

NOTE 17 - DERIVATIVES AND OFF-BALANCE SHEET RISK

The Foundation has investments in the "hedge fund-of-funds industry" (derivatives) which are fair value hedging instruments as defined in the ASC. The Foundation does not engage in speculation. The effect of this practice is to help protect the Foundation from losses which would result from price fluctuations of their traditional investments. As of June 30, 2011 and 2010, the Foundation had cumulative unrealized net gains in its hedge funds of \$647,107 and \$260,075, respectively.

NOTE 18 - THE INN AT USC

On August 2, 2004, the Foundation participated with USC Hotel Investments, LLC to form a Limited Liability Company named USC Hotel Associates, LLC. The Foundation has an eighty percent ownership interest in USC Hotel Associates, LLC. Its purpose is to develop, own and operate "The Inn at USC", a 117 room hotel located on Pendleton Street near the Columbia, South Carolina campus.

In connection with the above development, the Foundation's wholly owned LLC, Inn at USC, LLC, entered into a ground lease with USC Hotel Associates, LLC, for the property it owns on Pendleton Street in Columbia, South Carolina. The initial term of the ground lease was 40 years, with an annual rent of \$303,000. During the year, The Inn at USC, LLC and USC Hotel Associates, LLC agreed to terminate the ground lease and The Inn at USC, LLC forgave 100% of all outstanding balances due under the ground lease. Negotiations regarding a new ground lease are still ongoing. All material transactions between USC Hotel Associates, LLC and the Foundation and Subsidiaries have been eliminated during consolidation.

On February 4, 2008, USC Hotel Associates, LLC refinanced their initial loan used to develop "The Inn at USC." The loan amount at June 30, 2011 and 2010 was \$9,988,000 and \$10,313,700, respectively, and is secured by the leasehold interest, building, and personal property. The Foundation has also guaranteed \$2,000,000 of the debt.

As of June 30, 2011 and 2010, the Foundation has loaned the USC Hotel Associates, LLC \$350,000 and \$165,000, respectively, under the terms of two unsecured promissory notes. The promissory notes are due on demand.

NOTE 19 - INVESTMENTS IN LLC

Adesso-DF, LLC, a single-member LLC was created on May 23, 2006, for the sole purpose of owning a 49% interest in Adesso Columbia, LLC, the owner of a residential and retail condominium project located on the western side of Main Street at Blossom Street in the City of Columbia, South Carolina.

On May 26, 2006, the Foundation transferred four properties to Adesso Columbia, LLC valued at \$4.4 million in exchange for capital valued at \$3,797,719 and cash payment of \$625,231. Also, on that date, the other member, Drake Adesso, LLC made a cash capital contribution in the amount of \$3,952,728. Development costs at closing totaled \$1,817,505 with the remaining contribution of \$2,135,223 deposited in the LLC's account. On May 26, 2006, Adesso Columbia, LLC executed a nonrecourse promissory note to the National Bank of South Carolina in the amount of \$31,002,000 for development financing. The note is secured by a first mortgage on the property and improvements. At June 30, 2011 and 2010, a total of \$15,547,001 and \$17,395,936, respectively, was outstanding. In addition, the Foundation has guaranteed certain interest payments related to this note up to \$1,000,000. In previous years, the Foundation accounted for their 49% interest in Adesso Columbia, LLC on the equity method.

During the fiscal year ended June 30, 2009, the Foundation wrote-off their \$4,294,249 equity investment interest in Adesso. The write-off occurred because of slow sales, and an updated proforma that shows, assuming a reasonable sales rate, that equity will be lost by the Foundation.

NOTE 20 - COMMITMENTS

The investment pool the Foundation participates in, as described in Note 4, has committed to investing \$10,000,000 in an investment fund. The participants in the investment pool have contributed \$7,400,000 as of June 30, 2011. The balance is due on demand at the discretion of the investment fund. The Foundation is required to contribute in proportion to their ownership percentage of 8.85% when the commitment is called. Withdrawals from the investment fund are restricted until the investment fund is fully funded.

NOTE 21 - ANNUITIES

The Foundation was under contract for a Charitable Gift Annuity with a donor. The annuity was established November 19, 1998 and required installment payments of \$75,000 annually for the life of the donor. The Foundation accounted for the contract using an annuity percentage as published by the Internal Revenue Service. During the year the donor passed away and thus the liability was removed from the Foundation as of June 30, 2011. The amount of the liability at June 30, 2010 was \$319,290.

NOTE 22 - SUBSEQUENT EVENTS

In October 2011, the Foundation entered into a contract to purchase a building in the amount of \$1,421,000. The Foundation deposited \$50,000 in earnest money on the execution date of the contract with the balance due at closing.

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ASSETS, LIABILITIES
AND NET ASSETS/MEMBERS' DEFICIT
JUNE 30, 2011**

	The USC Development Foundation	USC Hotel Associates, LLC	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 5,799,054	\$ 127,555	\$ -	\$ 5,926,609
Investments in securities	24,772,523	-	-	24,772,523
Contributions receivable	2,387,855	-	-	2,387,855
Other receivables	135,868	182,552	-	318,420
Prepaid expenses	-	31,170	-	31,170
Property and equipment, net	8,573,595	7,969,281	-	16,542,876
Real estate held	30,318,279	-	-	30,318,279
Other assets	208,817	44,259	-	253,076
Advances receivable	351,274	-	(351,274)	-
Total assets	<u>\$ 72,547,265</u>	<u>\$ 8,354,817</u>	<u>\$ (351,274)</u>	<u>\$ 80,550,808</u>
LIABILITIES AND NET ASSETS/MEMBERS' DEFICIT				
Liabilities				
Accounts payable and accrued expenses	\$ 382,549	\$ 1,511,099	\$ (1,274)	\$ 1,892,374
Lines-of-credit	16,151,408	175,871	-	16,327,279
Loans payable	-	350,000	(350,000)	-
Notes payable	-	9,988,000	-	9,988,000
Bonds payable	19,135,000	-	-	19,135,000
Deficit in USC Hotel Associates, LLC	3,340,122	-	(3,340,122)	-
Funds held for others	17,866	-	-	17,866
Total current liabilities	<u>39,026,945</u>	<u>12,024,970</u>	<u>(3,691,396)</u>	<u>47,360,519</u>
NET ASSETS/MEMBERS' DEFICIT				
USC Development Foundation net assets				
Net assets				
Unrestricted				
Board designated for investments	16,659,333	-	-	16,659,333
Undesignated	(6,935,484)	-	-	(6,935,484)
	9,723,849	-	-	9,723,849
Temporarily restricted	20,430,543	-	-	20,430,543
Permanently restricted	3,365,928	-	-	3,365,928
USC Hotel Associates, LLC members' deficit	-	(3,670,153)	3,670,153	-
Total Foundation net assets/members' deficit	<u>33,520,320</u>	<u>(3,670,153)</u>	<u>3,670,153</u>	<u>33,520,320</u>
Noncontrolling interest	-	-	(330,031)	(330,031)
Total net assets/members' deficit	<u>33,520,320</u>	<u>(3,670,153)</u>	<u>3,340,122</u>	<u>33,190,289</u>
Total liabilities and net assets/members' deficit	<u>\$ 72,547,265</u>	<u>\$ 8,354,817</u>	<u>\$ (351,274)</u>	<u>\$ 80,550,808</u>

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS/MEMBERS' DEFICIT
For the year ended June 30, 2011**

Supplemental Schedule 2

	The USC Development Foundation	USC Hotel Associates, LLC	Eliminations	Consolidated
UNRESTRICTED NET ASSETS				
Revenues				
Investment returns	\$ 3,742,853	\$ -	\$ -	\$ 3,742,853
Rental income	835,230	-	-	835,230
Room revenue	-	2,231,233	-	2,231,233
Gain on sale of assets	2,933	-	-	2,933
Other	27,317	1,127,082	(245,875)	908,524
Total revenues	4,608,333	3,358,315	(245,875)	7,720,773
Support	363,246	-	-	363,246
Net assets released from restrictions	46,731	-	-	46,731
Total revenues and support	5,018,310	3,358,315	(245,875)	8,130,750
EXPENSES AND LOSSES				
Supporting services				
Management and general	395,872	-	-	395,872
USC Hotel Associates	-	3,002,276	38,956	3,041,232
Program services				
Investment services	445,291	-	-	445,291
Property services	959,587	-	-	959,587
Total expenses	1,800,750	3,002,276	38,956	4,841,982
INCREASE IN UNRESTRICTED NET ASSETS				
	3,217,560	356,039	(284,831)	3,288,768
TEMPORARILY RESTRICTED NET ASSETS				
Investment returns	390,946	-	-	390,946
Support	333,882	-	-	333,882
Rental income	1,200	-	-	1,200
Net assets released from restrictions	(46,731)	-	-	(46,731)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS				
	679,297	-	-	679,297
INCREASE IN NET ASSETS/ MEMBERS' DEFICIT				
	3,896,857	356,039	(284,831)	3,968,065
NET INCREASE ATTRIBUTABLE TO NONCONTROLLING INTEREST IN USC HOTEL ASSOCIATES, LLC				
	-	-	(71,208)	(71,208)
INCREASE IN NET ASSETS/ MEMBERS' DEFICIT				
	<u>\$ 3,896,857</u>	<u>\$ 356,039</u>	<u>\$ (356,039)</u>	<u>\$ 3,896,857</u>

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ASSETS, LIABILITIES
AND NET ASSETS/MEMBERS' DEFICIT
JUNE 30, 2010**

	The USC Development Foundation	USC Hotel Associates, LLC	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 5,707,376	\$ 252,105	\$ -	\$ 5,959,481
Investments in securities	15,658,005	-	-	15,658,005
Contributions receivable	3,076,572	-	-	3,076,572
Other receivables	350,304	116,046	(245,875)	220,475
Prepaid expenses	-	16,293	-	16,293
Property and equipment, net	8,696,897	8,175,002	-	16,871,899
Real estate held	30,254,099	-	-	30,254,099
Other assets	20,223	55,491	-	75,714
Advances receivable	166,274	-	(166,274)	-
Total assets	<u>\$ 63,929,750</u>	<u>\$ 8,614,937</u>	<u>\$ (412,149)</u>	<u>\$ 72,132,538</u>
LIABILITIES AND NET ASSETS/MEMBERS' DEFICIT				
Liabilities				
Accounts payable and accrued expenses	\$ 609,568	\$ 2,062,429	\$ (247,147)	\$ 2,424,850
Lines-of-credit	17,187,761	100,000	-	17,287,761
Loans payable	-	165,000	(165,000)	-
Notes payable	2,896,137	10,313,700	-	13,209,837
Bonds payable	9,970,000	-	-	9,970,000
Deficit in USC Hotel Associates, LLC	3,624,955	-	(3,624,955)	-
Funds held for others	17,866	-	-	17,866
Total current liabilities	<u>34,306,287</u>	<u>12,641,129</u>	<u>(4,037,102)</u>	<u>42,910,314</u>
NET ASSETS/MEMBERS' DEFICIT				
USC Development Foundation net assets				
Net assets				
Unrestricted				
Board designated for investments	13,089,864	-	-	13,089,864
Undesignated	(6,583,575)	-	-	(6,583,575)
	6,506,289	-	-	6,506,289
Temporarily restricted	19,751,246	-	-	19,751,246
Permanently restricted	3,365,928	-	-	3,365,928
USC Hotel Associates, LLC members' deficit	-	(4,026,192)	4,026,192	-
Total Foundation net assets/members' deficit	<u>29,623,463</u>	<u>(4,026,192)</u>	<u>4,026,192</u>	<u>29,623,463</u>
Noncontrolling interest	-	-	(401,239)	(401,239)
Total net assets/members' deficit	<u>29,623,463</u>	<u>(4,026,192)</u>	<u>3,624,953</u>	<u>29,222,224</u>
Total liabilities and net assets/members' deficit	<u>\$ 63,929,750</u>	<u>\$ 8,614,937</u>	<u>\$ (412,149)</u>	<u>\$ 72,132,538</u>

**THE UNIVERSITY OF SOUTH CAROLINA
DEVELOPMENT FOUNDATION AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS/MEMBERS' DEFICIT
For the year ended June 30, 2010**

	The USC Development Foundation	USC Hotel Associates, LLC	Eliminations	Consolidated
UNRESTRICTED NET ASSETS				
Revenues				
Investment returns	\$ 1,815,015	\$ -	\$ -	\$ 1,815,015
Rental income	1,475,289	-	(303,000)	1,172,289
Room revenue	-	1,912,080	-	1,912,080
Other	114,947	967,307	-	1,082,254
Total revenues	3,405,251	2,879,387	(303,000)	5,981,638
Support	39,869	-	-	39,869
Net assets released from restrictions	1,444,418	-	-	1,444,418
Total revenues and support	4,889,538	2,879,387	(303,000)	7,465,925
EXPENSES				
Supporting services				
Management and general	383,916	-	-	383,916
USC Hotel Associates	-	3,744,230	(994,874)	2,749,356
Program services				
Investment services	1,629,225	-	-	1,629,225
Property services	2,884,398	-	-	2,884,398
Loss on sale of assets	10,000	-	-	10,000
Total expenses	4,907,539	3,744,230	(994,874)	7,656,895
DECREASE IN UNRESTRICTED NET ASSETS	<u>(18,001)</u>	<u>(864,843)</u>	<u>691,874</u>	<u>(190,970)</u>
TEMPORARILY RESTRICTED NET ASSETS				
Investment returns	58,145	-	-	58,145
Support	2,956,173	-	-	2,956,173
Rental income	2,400	-	-	2,400
Net assets released from restrictions	(1,444,418)	-	-	(1,444,418)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>1,572,300</u>	<u>-</u>	<u>-</u>	<u>1,572,300</u>
DECREASE IN NET ASSETS/ MEMBERS' DEFICIT	1,554,299	(864,843)	691,874	1,381,330
NET INCREASE (DECREASE) ATTRIBUTABLE TO NONCONTROLLING INTEREST IN USC HOTEL ASSOCIATES, LLC				
	<u>-</u>	<u>-</u>	<u>172,969</u>	<u>172,969</u>
INCREASE (DECREASE) IN NET ASSETS/ MEMBERS' DEFICIT	<u>\$ 1,554,299</u>	<u>\$ (864,843)</u>	<u>\$ 864,843</u>	<u>\$ 1,554,299</u>