

UNIVERSITY OF SOUTH CAROLINA  
EDUCATIONAL FOUNDATION

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AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEARS ENDED JUNE 30, 2017 AND 2016

WITH  
INDEPENDENT AUDITORS' REPORT

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EDUCATIONAL FOUNDATION

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AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

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YEARS ENDED JUNE 30, 2017 AND 2016

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# THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
University of South Carolina Educational Foundation  
1027 Barnwell Street  
Columbia, South Carolina 29208

We have audited the accompanying financial statements of the University of South Carolina Educational Foundation (the "Foundation"), a not-for-profit component unit of the University of South Carolina, which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina Educational Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedules of functional expenses on pages 28 (2017) and 29 (2016) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*The Brittingham Group LLP*

West Columbia, South Carolina  
September 12, 2017

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 10,796,406	\$ 8,706,255
Accounts receivable:		
University of South Carolina	1,349,494	1,997,104
University of South Carolina Development Foundation	4,250,000	1,504,208
Other (net of allowance for doubtful accounts at \$14,241 at June 30, 2017 and 2016)	65,693	69,983
Notes receivable:		
University of South Carolina Alumni Association	5,933,004	5,933,004
Other	528,233	495,981
Contributions receivable, net	38,517,150	44,824,519
Investments	435,997,290	341,804,712
Assets held in trust by others	27,182,128	63,057,371
Assets held in trust by the Foundation	830,420	698,824
Other assets	251	251
Fixed assets, net	37,131	-
<b>Total assets</b>	<b>\$ 525,487,200</b>	<b>\$ 469,092,212</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable:		
University of South Carolina	\$ 6,754,352	\$ 2,986,441
Other	1,548,557	971,574
Accrued interest payable:		
University of South Carolina Alumni Association	32,233	18,184
University of South Carolina Business Partnership Foundation	173,455	134,698
Funds held for others:		
Educational Foundation of USC Lancaster	8,649,976	7,783,949
Other	159,947	92,507
Annuity obligations	1,170,497	1,191,583
Notes payable:		
University of South Carolina Alumni Association	1,019,356	941,979
University of South Carolina Business Partnership Foundation	4,000,000	5,000,000
Other	3,933,004	18,933,004
<b>Total liabilities</b>	<b>27,441,377</b>	<b>38,053,919</b>
Contingencies (Note 8)		
Net assets:		
Unrestricted:		
Undesignated	95,266,765	58,930,052
Designated - quasi-endowments	7,476,622	5,688,192
Temporarily restricted:		
Held by the Foundation	85,873,066	80,122,250
Held in trust by others	25,215,976	61,091,219
Permanently restricted:		
Held by the Foundation	282,247,242	223,240,428
Held in trust by others	1,966,152	1,966,152
<b>Total net assets</b>	<b>498,045,823</b>	<b>431,038,293</b>
<b>Total liabilities and net assets</b>	<b>\$ 525,487,200</b>	<b>\$ 469,092,212</b>

See accompanying notes.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

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

See accompanying notes.



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>				
Contributions:				
Received	\$ 23,405,047	\$ 1,902,391	\$ 8,106,644	\$ 33,414,082
Change in pledges receivable	-	1,775,423	-	1,775,423
Dividends and interest	4,074,786	1,753,774	-	5,828,560
Net gains (losses) on investments	(7,804,071)	(3,882,927)	-	(11,686,998)
Guaranty fee - USC Development Foundation	500,000	-	-	500,000
Other receipts	858,082	-	-	858,082
Net assets released from restrictions:				
Satisfaction of program restrictions	5,911,581	(8,825,341)	2,913,760	-
Expiration of time restrictions	2,665,981	(3,479,665)	813,684	-
<b>Total revenue, gains and other support</b>	<b>29,611,406</b>	<b>(10,756,345)</b>	<b>11,834,088</b>	<b>30,689,149</b>
<b>Expenses</b>				
Scholarships, tuition reimbursements and awards	10,096,727	-	-	10,096,727
Salary supplements and benefits	4,260,151	-	-	4,260,151
Support and operational costs	3,416,506	-	-	3,416,506
Fundraising and advancement	964,090	-	-	964,090
Other program services	13,447,832	-	-	13,447,832
<b>Total expenses</b>	<b>32,185,306</b>	<b>-</b>	<b>-</b>	<b>32,185,306</b>
Changes in net assets	(2,573,900)	(10,756,345)	11,834,088	(1,496,157)
Net assets, beginning of year	67,192,144	151,969,814	213,372,492	432,534,450
Net assets, end of year	<b>\$ 64,618,244</b>	<b>\$ 141,213,469</b>	<b>\$ 225,206,580</b>	<b>\$ 431,038,293</b>

See accompanying notes.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 67,007,530	\$ (1,496,157)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,985	-
Net (gains)/losses on investments	(45,685,263)	11,686,998
Bad debt expense	5,000	-
Actuarial gain on annuity obligations	(78,573)	(504,588)
Contributions restricted to endowment:		
Temporarily restricted	(4,273,506)	(2,266,656)
Permanently restricted	(14,185,191)	(8,106,644)
Changes in certain assets and liabilities:		
Accounts receivable	(2,093,892)	(613,110)
Note receivable	(32,252)	(4,005,094)
Other assets	-	999
Contributions receivable	6,307,369	(1,775,423)
Accounts payable	4,344,894	(2,431,212)
Interest expense not paid (or paid in excess of amount earned)	52,807	51,886
Funds held for others	933,467	(685,108)
Net cash flows from operating activities	<u>12,309,375</u>	<u>(10,144,109)</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(44,116)	-
Proceeds from sale of investments	(148,175,965)	(22,799,561)
Purchase of investments	99,663,650	16,022,453
Net cash flows from investing activities	<u>(48,556,431)</u>	<u>(6,777,108)</u>

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UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

(CONTINUED)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for investment in endowment:		
Temporarily restricted	4,273,506	2,266,656
Permanently restricted	14,185,191	8,106,644
Other financing activities:		
Proceeds from notes payable	77,377	3,933,004
Payments on notes payable	(16,000,000)	(1,215,248)
Changes in split interest agreements	35,875,242	3,656,787
Changes in annuity and trust obligations	(74,109)	60,283
Net cash flows from financing activities	<u>38,337,207</u>	<u>16,808,126</u>
Net change in cash and cash equivalents	2,090,151	(113,091)
Cash and cash equivalents at beginning of year	8,706,255	8,819,346
Cash and cash equivalents at end of year	<u>\$ 10,796,406</u>	<u>\$ 8,706,255</u>
<b>Supplemental data:</b>		
<b>Noncash investing and financing activities:</b>		
Gifts of real estate and equipment	\$ 780,000	\$ 555,541
<b>Other disclosures:</b>		
Interest paid	\$ 295,909	\$ 306,056

*See accompanying notes.*

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# UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### 1. Summary of Significant Accounting Policies

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

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

#### Unrestricted

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

#### Temporarily Restricted

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

#### Permanently Restricted

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

— CONTINUED —

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Other significant accounting policies are as follows:

Revenue, Gains and Other Support, and Expenses and Losses

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

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

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

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

Donated Services, Goods, and Facilities

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

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

Cash and Cash Equivalents

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

# UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

#### Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions. At June 30, 2017, the bank balance of cash and cash equivalents totaled \$11,068,010, of which \$9,527,544 was not covered by federal deposit insurance. The Foundation has not experienced any losses on its cash equivalents. Management monitors the risk of exposure to loss through monitoring the performance of the financial institutions through publicly available rating agencies.

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

#### Investments

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

#### Assets Held in Trust

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

#### By the Foundation

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

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

By Others

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

Annuity Obligations

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

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

	<u>2017</u>	<u>2016</u>
Contributions	\$ 207,000	\$ 100,000
Actuarial gain	\$ 78,573	\$ 504,588
Payments made	\$ (356,372)	\$ (440,101)

The Foundation uses a reinsurance policy to provide amounts to be paid in the future for some of its annuity obligations. The amounts to be provided under the reinsurance agreement are netted against annuity obligations on the Statement of Financial Position and are valued at \$631,237 and \$688,724 as of June 30, 2017 and 2016, respectively.

Fixed Assets

Fixed asset purchases are recorded at cost. Donated fixed assets are recorded at fair value on the date of the gift. Assets are capitalized if the value at acquisition exceeds \$5,000 and the estimated useful life exceeds three years. Depreciation is provided over the estimated useful life computed on the straight-line method.

Funds Held for Others

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



# UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

#### Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). However, it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending June 30, 2017, 2016, 2015, and 2014 are still open to audit for both federal and state purposes. The Foundation is not classified as a private foundation.

#### Expense Allocation

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

#### Reclassifications

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

#### Use of Estimates

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

### 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:

- Notes payable - Fair value approximates carrying value due to the short maturity of these financial instruments.
- Contributions receivable - The fair value of promises to give that are due in one year or more is estimated by discounting the estimated future cash flows using an estimate of the Foundation's earnings rate.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

- Investments - The fair value of debt and equity security investments are estimated based on quoted market prices when available. For other investments for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. It was not practical to estimate the fair value of the alternative investments. These investments are carried at the capital account value.
- 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.

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

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

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

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

The estimated fair values of the Foundation's financial instruments are as follows and are included in the statement of financial position under similar descriptions for both June 30, 2017 and 2016:

Description	June 30, 2017	Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Financial assets requiring fair value disclosure:				
Investments	\$ 435,997,290	\$ 386,565,200	\$ -	\$ 49,432,090
Assets held in trust by others	27,182,128	-	-	27,182,128
Assets held in trust by the Foundation	830,420	830,420	-	-
Contributions receivable	38,517,150	-	-	38,517,150
	<u>\$ 502,526,988</u>	<u>\$ 387,395,620</u>	<u>\$ -</u>	<u>\$ 115,131,368</u>
Financial liabilities requiring fair value disclosure:				
Annuity obligations	\$ (1,170,497)	\$ -	\$ -	\$ (1,170,497)
Notes payable	(8,952,360)	-	-	(8,952,360)
	<u>\$ (10,122,857)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,122,857)</u>

Description	June 30, 2016	Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Financial assets requiring fair value disclosure:				
Investments	\$ 341,804,712	\$ 301,435,519	\$ -	\$ 40,369,193
Assets held in trust by others	63,057,371	4,614,522	-	58,442,849
Assets held in trust by the Foundation	698,824	698,824	-	-
Contributions receivable	44,824,519	-	-	44,824,519
	<u>\$ 450,385,426</u>	<u>\$ 306,748,865</u>	<u>\$ -</u>	<u>\$ 143,636,561</u>
Financial liabilities requiring fair value disclosure:				
Annuity obligations	\$ (1,191,583)	\$ -	\$ -	\$ (1,191,583)
Notes payable	(24,874,983)	-	-	(24,874,983)
	<u>\$ (26,066,566)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,066,566)</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Fair Value of Financial Instruments (Continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Investments		Assets Held			
	Hedge Funds	Private Equity Partnership	in Trust by Others	Contributions Receivable	Annuity Obligations	Notes Payable
Ending balance-June 30, 2015	\$ 34,908,534	\$ 6,853,576	\$ 61,581,449	\$ 43,049,096	\$ (1,682,117)	\$ (22,157,226)
Total dividends included						
in changes in net assets	-	42,811	-	-	-	-
Total gains or losses						
(realized/unrealized) included						
in changes in net assets	(1,767,491)	234,867	-	-	-	-
Purchases, issuances, and settlements	(57,743)	1,450,121	-	-	-	-
Return of capital	-	(576,508)	-	-	-	-
Cash out of dividend/ realized gain	-	(718,974)	-	-	-	-
Change in assets held in trust by others	-	-	(3,138,600)	-	-	-
Change in contributions receivable	-	-	-	1,775,423	-	-
Change in annuity obligations	-	-	-	-	490,534	-
Change in notes payable	-	-	-	-	-	(2,717,757)
Ending balance-June 30, 2016	33,083,300	7,285,893	58,442,849	44,824,519	(1,191,583)	(24,874,983)
Total dividends included						
in changes in net assets	-	711,370	-	-	-	-
Total gains or losses						
(realized/unrealized) included						
in changes in net assets	2,176,827	968,181	-	-	-	-
Purchases, issuances, and settlements	7,048,382	2,235,801	-	-	-	-
Return of capital	-	(1,113,007)	-	-	-	-
Fees	-	(244,606)	-	-	-	-
Cash out of dividend/ realized gain	-	(2,720,051)	-	-	-	-
Change in assets held in trust by others	-	-	(31,260,721)	-	-	-
Change in contributions receivable	-	-	-	(6,307,369)	-	-
Change in annuity obligations	-	-	-	-	21,086	-
Change in notes payable	-	-	-	-	-	15,922,623
Ending balance-June 30, 2017	\$ 42,308,509	\$ 7,123,581	\$ 27,182,128	\$ 38,517,150	\$ (1,170,497)	\$ (8,952,360)
The amount of total gains or losses for the year ended June 30, 2017 included in changes in net assets attributable to the change in gains or losses relating to assets still held at June 30, 2017	\$ 2,176,827	\$ 1,285,105	\$ -	\$ -	\$ -	\$ -

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

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

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

Private Equity Partnerships – The Foundation holds ownership positions in four partnerships with investment strategies of investing in private equity (distressed companies) and private energy funds. The Foundation cannot redeem its investment in these funds until the final liquidation of the partnerships. The distressed equities fund is in the late stage of its life and has an estimated one (1) year left until the majority of the capital has been returned. This partnership is valued at \$2,098,490 at June 30, 2017. The amount of unfunded commitments related to this investment is \$300,000. One private energy fund is in the early stage of its life and has an estimated five and one-half (5.5) years left until the majority of the capital has been returned. This partnership is valued at \$1,643,286 at June 30, 2017. The amount of unfunded commitments related to this investment is \$1,450,851. The other private energy fund is in the early stage of its life and has an estimated seven and one-half (7.5) years left until the majority of the capital has been returned. This partnership is valued at \$1,964,373 at June 30, 2017. The amount of unfunded commitments is \$1,766,511. The final private energy fund is in the early stage of its life and has an estimated seven and one-half (7.5) years left until the majority of the capital has been returned. This partnership is valued at \$1,417,432 at June 30, 2017. The amount of unfunded commitments related to this investment is \$2,120,000.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Investments**

The following summarizes the fair values of investments by investment pool at June 30, 2017 and 2016:

	<b>Years Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Readily Marketable	\$ 18,553,282	\$ 26,852,225
University Foundations Pool	412,385,908	309,483,795
Other Donor - Restricted Endowments - Not Readily Marketable	5,058,100	5,468,692
	<u>\$ 435,997,290</u>	<u>\$ 341,804,712</u>

Investments are composed of the following:

	<b>Years Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Money Funds	\$ 3,781,173	\$ 5,050,271
Fixed Income Mutual Funds	71,894,608	60,158,237
Stocks and Equity Mutual Funds	305,831,320	230,758,320
Real Estate	868,527	1,701,527
Other/Alternative Investments	53,621,662	44,136,357
	<u>\$ 435,997,290</u>	<u>\$ 341,804,712</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**3. Investments (Continued)**

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

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

	June 30, 2016	
	University Foundations Pooled Investments	Portion Owned by USC Educational Foundation
	Fair Value	Fair Value
Investment Pools:		
Money Funds	\$ 6,494,455	\$ 5,050,260
Stocks	167,049,659	129,924,597
Equity Mutual Funds	121,182,329	93,843,229
Fixed Income Mutual Funds	47,163,658	40,296,517
Other/Alternative Investments	53,535,757	40,369,192
<b>Total Investment Pools</b>	<b>\$ 395,425,858</b>	<b>\$ 309,483,795</b>

Investment income from cash equivalents and investments is comprised of the following for the years ended June 30, 2017 and 2016:

	June 30, 2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Dividends and interest	\$ 3,452,425	\$ 3,115,782	\$ -
Realized gains (losses)	5,459,103	10,715,093	-
Unrealized gains (losses)	12,943,590	16,567,477	-
<b>Total</b>	<b>\$ 21,855,118</b>	<b>\$ 30,398,352</b>	<b>\$ -</b>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Investments (Continued)

	June 30, 2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Dividends and interest	\$ 4,074,786	\$ 1,753,774	\$ -
Realized gains (losses)	7,411,260	4,796,409	-
Unrealized gains (losses)	(15,215,331)	(8,679,336)	-
Total	<u>\$ (3,729,285)</u>	<u>\$ (2,129,153)</u>	<u>\$ -</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:

	June 30,	
	2017	2016
Held by others:		
Temporarily restricted	\$ 25,215,976	\$ 61,091,219
Permanently restricted	1,966,152	1,966,152
	<u>27,182,128</u>	<u>63,057,371</u>
Held by the Foundation:		
Temporarily restricted	830,420	698,824
	<u>830,420</u>	<u>698,824</u>
Total assets held in trust	<u>\$ 28,012,548</u>	<u>\$ 63,756,195</u>

Certain changes in funds held in trust are comprised of the following for the years ended June 30, 2017 and 2016, respectively, and are reported as increases/decreases in contributions received.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Held by Foundation	\$ -	\$ 88,850	\$ -	\$ 88,850	\$ 16,963
Held by others	-	3,403,876	-	3,403,876	(1,408,751)
	<u>\$ -</u>	<u>\$ 3,492,726</u>	<u>\$ -</u>	<u>\$ 3,492,726</u>	<u>\$ (1,391,788)</u>



UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

Distributions received from funds held in trust by others were recognized as temporarily restricted contributions in the amount of \$233,388 and \$2,289,499 for the years ended June 30, 2017 and 2016, respectively.

Distributions and other expenses paid from funds held in trust by the Foundation are included as expenses on the financial statements and totaled \$47,928 and \$19,492 for the years ended June 30, 2017 and 2016, respectively.

**5. Contributions Receivable**

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

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 9,483,713	\$ 10,079,690
Receivable in one to five years	44,788,066	45,973,475
Receivable in six to ten years	4,361,488	6,972,941
Receivable in more than ten years	655,180	287,380
	<u>59,288,447</u>	<u>63,313,486</u>
Less, allowance for uncollectible pledges	(10,251,001)	(6,684,082)
Less, discount for time value of money	(10,520,296)	(11,804,885)
Contributions receivable, net	<u>\$ 38,517,150</u>	<u>\$ 44,824,519</u>

The discount to net present value was calculated using the estimated earnings rate of 8.00% as of June 30, 2017 and 2016.

**6. Notes Payable**

The Foundation entered into an agreement with the University of South Carolina Alumni Association (the "Association") to invest up to \$2,450,000 at guaranteed rates up to 1.5% until the Association requests the funds. The Foundation owed \$1,019,356 and \$941,979 at June 30, 2017 and 2016, respectively, under this agreement. Accrued interest payable totaled \$32,233 and \$18,184 at June 30, 2017 and 2016, respectively, and is included in accrued interest payable on the Statement of Financial Position.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**6. Notes Payable (Continued)**

Also, the Foundation entered into an agreement with the University of South Carolina Business Partnership Foundation (the “BPF”) to invest up to \$5,000,000 at guaranteed rates up to 1.0% until the BPF requests the funds. The Foundation owed \$4,000,000 at June 30, 2017 and \$5,000,000 at June 30, 2016, under this agreement. Accrued interest payable totaled \$173,455 and \$134,698 at June 30, 2017 and 2016, respectively, and is included in accrued interest payable on the Statement of Financial Position.

On June 25, 2015, the Foundation obtained a line of credit with a bank in the amount of \$20,000,000 with a floating interest rate equal to the 30 day LIBOR rate plus 1.20%. Interest only payments are due beginning August 2, 2015. The entire outstanding principal balance, along with any outstanding accrued interest was due on June 25, 2017. As of June 25, 2017, the Foundation extended the line of credit for two years with a new maturity date of June 25, 2019. As of June 30, 2017 and 2016, the outstanding balance was \$3,933,004 and \$18,933,004, respectively.

As a result of these agreements, the Foundation recognized interest expense of \$348,716 and \$357,942 for the years ended June 30, 2017 and 2016, respectively.

**7. Funds Held for Others**

The Foundation had \$8,809,923 and \$7,876,456 for the years ended June 30, 2017 and 2016, respectively, for funds held for affiliated entities.

**8. Debt Guaranties/Contingencies/Commitments**

The Foundation has guarantied under a guaranty agreement the repayment of an \$8,500,000 line of credit taken out by the Development Foundation. As of June 30, 2017, the outstanding principal balance was \$8,075,000.

The Foundation has guarantied under a guaranty agreement the repayment of a \$26,000,000 line of credit taken out by the Development Foundation. As of June 30, 2017, the outstanding principal balance was \$24,751,999.

As reported in *Note 2*, the Foundation has committed to invest an additional \$5,637,362 in Private Equity Holdings. This money is payable upon demand.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**8. Debt Guaranties/Contingencies/Commitments (Continued)**

During the 2014/2015 fiscal year, the Development Foundation entered into a bond financing agreement for the construction of a new dormitory. The total debt under this agreement will be \$92,700,000. The current outstanding balance was \$91,157,134 as of June 30, 2017. The USC Educational Foundation is providing a guaranty on portions of this debt that will be reduced once certain benchmarks are reached, as set forth below. The Development Foundation is paying the Educational Foundation a 1% annual guarantor's fee, as set forth below. In addition, the Development Foundation is agreeing with the Educational Foundation that, in the event of a default on the financing and enforcement by the lenders of the guaranties, any guaranty payment to the lenders will be made first by the Development Foundation to its \$15 million limit before the Educational Foundation has to pay on its guaranty, and the Development Foundation will repay the Educational Foundation with interest for any guaranty payment made by the Educational Foundation.

<u>Guaranty Benchmarks, Limits and Fees:</u>	<u>Limit of Guaranty</u>	<u>Guaranty Fee</u>
a. At bond closing (July 31, 2014)	\$75 million	\$750,000
b. At completion of Phase 1 (July 31, 2015)	\$50 million	500,000
c. At completion of Phase 1A (July 31, 2016)	\$25 million	250,000
d. One year after meeting 1.2 Debt Service Coverage Ratio (DSCR) (Estimated to be September 1, 2017)	\$15 million	150,000
e. Two consecutive years at 1.2 DSCR (Estimated to be September 1, 2018)	\$10 million	100,000
f. Three consecutive years at 1.2 DSCR (Estimated to be September 2019)	\$0	-
Total guaranty fees to be paid to the Foundation		<u>\$1,750,000</u>

**9. Board Designated Funds**

Quasi-Endowments have been designated totaling \$7,476,622 and \$5,688,192 at June 30, 2017 and 2016, 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.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**10. Temporarily Restricted Net Assets**

At June 30, 2017, temporarily restricted net assets are available for the following specific program services:

Contributions receivable	\$ 38,517,150
Awaiting full endowment level and temporary investment earnings	42,802,343
Annuity and life trust agreements	29,769,549
	<u>\$ 111,089,042</u>

Net assets released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors were \$63,518,775 and \$12,305,006 for the years ended June 30, 2017 and 2016, respectively.

**11. Permanently Restricted Assets**

Permanently restricted net assets of \$284,213,394 at June 30, 2017 are restricted to investment in perpetuity, the income from which is expendable to support the Foundation's objectives.

During the normal course of business, investment losses may cause a temporary invasion of corpus for certain permanently restricted endowments. These negative balances amounted to \$1,069,300 and \$3,453,492 at June 30, 2017 and 2016, respectively. Management believes that these declines are temporary.

**12. Operating Lease**

During the year ended June 30, 2014, the Foundation entered into an operating lease for certain equipment to be used for teaching and research at the McNair Center at the University of South Carolina. Future payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 212,500
2019	212,500
2020	212,500
	<u>\$ 637,500</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**13. Endowments**

The Foundation's endowment consists of approximately 2,100 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SCUPMIFA. In accordance with SCUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Foundation and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the Foundation.
- 7) The investment policies of the Foundation.

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Total net assets	\$102,743,387	\$ 111,089,042	\$ 284,213,394	\$ 498,045,823
less, Board designated quasi endowments	(7,476,622)	-	-	(7,476,622)
less, other funds not meeting endowment definition	(70,269,044)	(70,025,080)	(1,934,309)	(142,228,433)
Total endowment	<u>\$ 24,997,721</u>	<u>\$ 41,063,962</u>	<u>\$ 282,279,085</u>	<u>\$ 348,340,768</u>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**13. Endowments (Continued)**

Changes in endowment net assets for the year ended June 30, 2017 and June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Ending endowment net asset balance - June 30, 2015	\$ 21,444,023	\$ 36,114,247	\$ 211,338,981	\$ 268,897,251
Reclassifications by management	75,643	(712)	202	75,133
Investment return	(3,523,825)	(2,108,725)	-	(5,632,550)
Contributions	324,452	2,266,656	8,106,644	10,697,752
Other revenue	126,794	-	-	126,794
Net assets released from restrictions	3,362,797	(8,778,379)	3,727,444	(1,688,138)
Appropriation of endowment assets for expenditures	(7,482,787)	-	-	(7,482,787)
Ending endowment net asset balance - June 30, 2016	14,327,097	27,493,087	223,173,271	264,993,455
Investment return	4,731,955	30,496,106	-	35,228,061
Contributions	446,371	4,273,506	14,185,191	18,905,068
Other revenue	132,377	-	-	132,377
Net assets released from restrictions	13,670,578	(21,198,737)	44,920,623	37,392,464
Appropriation of endowment assets for expenditures	(8,310,657)	-	-	(8,310,657)
Ending endowment net asset balance - June 30, 2017	<u>\$ 24,997,721</u>	<u>\$ 41,063,962</u>	<u>\$ 282,279,085</u>	<u>\$ 348,340,768</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 unrestricted net assets were (\$2,552,639) and (\$8,027,370) as of June 30, 2017 and June 30, 2016, 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 4.5% pay out and 1.5% for associated fees while assuming a moderate level of investment risk.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

**13. Endowments (Continued)**

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 4.5 percent of its endowment fund's average fair value over the prior 5 quarters through September 30 proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 7 to 8 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**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 \$36,701,949 and \$15,484,475 for the years ended June 30, 2017 and 2016, respectively. The Foundation had accounts payable to USC in the amount of \$6,754,352 and \$2,986,441 for the years ended June 30, 2017 and 2016, 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 \$350,000 and \$100,000 for 2017 and 2016, respectively.

University Specialty Clinics

Salary supplements for certain University employees were paid in the amount of \$408,783 and \$324,241 for 2017 and 2016, respectively.

USC Development Foundation

The Foundation paid the USC Development Foundation for building occupancy cost in the amount of \$186,000 for the years ended June 30, 2017 and 2016.

The USC Development Foundation paid the Foundation \$342,503 and \$335,708 in fiscal years 2017 and 2016, respectively for various operational costs, including salary support, equipment, investment advisory fees, etc.

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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

USC Development Foundation (Continued)

As of June 30, 2017 and 2016, the USC Development Foundation owed the Foundation \$250,000 and \$500,000 in Debt Guaranty fees and \$4,000,000 and \$1,000,000 for a cash advance related to a potential purchase of real estate owned by the USC Development Foundation.

Short-term Library Advance

Under this agreement, the Foundation has agreed to advance up to \$3,000,000 to the USC Library for construction costs and interior furnishing with an interest rate of 2%. The library owed \$1,349,494 and \$1,997,104 to the Foundation for the years ended June 30, 2017 and 2016, respectively. These funds will be repaid over time by the USC Library.

Alumni Association Note Receivable

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

Alumni Association Note Payable

The provisions of the Alumni Association Note Payable are described in *Note 6*.

BPF Note Payable

The provisions of the BPF Note Payable are described in *Note 6*.

Funds Held for the Educational Foundation of USC Lancaster

At June 30, 2017 and 2016, the Foundation held for the Educational Foundation of USC Lancaster \$8,649,976 and \$7,783,949, respectively.

Guaranties of Debt of the USC Development Foundation

The provisions of the Guaranties of the Debt of the USC Development Foundation are described in *Note 8*.

**15. Subsequent events**

Subsequent events were evaluated through September 12, 2017, which is the date the financial statements were available for issue.



OTHER FINANCIAL INFORMATION

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UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Scholarships, Tuition Reimbursements and Awards	Salary Supplements and Benefits	Support and Operational Costs	Fundraising and Advancement	Other Program Services	Total
Scholarships and tuition reimbursements	\$ 10,096,727	\$ -	\$ -	\$ -	\$ -	\$ 10,096,727
Salary supplements and benefits	-	4,070,755	-	-	-	4,070,755
Operational salaries and benefits	-	-	1,663,732	-	-	1,663,732
Contributions and grants	-	-	6,180	2,525	2,190,500	2,199,205
Contractual services and professional fees	-	-	1,280,267	94,195	1,810,238	3,184,700
Rent (office, telephone, copier)	-	-	194,547	37,350	745,787	977,684
Food supplies	-	-	10,270	120,831	1,106,617	1,237,718
Printing and advertising	-	-	40,046	24,775	216,535	281,356
Fundraising	-	-	-	619,050	-	619,050
Construction costs, maintenance and repairs	-	-	42,948	-	3,799,080	3,842,028
Office supplies, equipment and software	-	-	86,186	631	1,152,171	1,238,988
Postage and freight	-	-	1,607	1,638	27,653	30,898
Telephone	-	-	-	14,031	17,113	31,144
Insurance	-	-	37,751	-	151,358	189,109
Other program supplies and sundries	-	-	31,183	11,091	217,799	260,073
Plaques, engraving and framing	-	-	580	605	30,215	31,400
Awards and honoraria	-	161,485	2,156	8,909	355,617	528,167
Conferences and travel	-	-	11,470	10,004	659,232	680,706
Property and use tax	-	-	-	205	35,449	35,654
Fees, subscriptions and dues	-	-	5,300	5,575	197,195	208,070
Instructional materials	-	-	-	-	65,965	65,965
Housing, room costs and moving expenses	-	-	2,283	12,675	388,837	403,795
Trust and annuity expenses	-	-	-	-	436,901	436,901
Split interest adjustment	-	27,911	-	-	(514,372)	(486,461)
Interest expense - line of credit	-	-	-	-	294,941	294,941
Interest expense - USC Alumni Association loan	-	-	-	-	18,184	18,184
Interest expense - USC Business Partnership loan	-	-	-	-	44,817	44,817
<b>Total Expenses</b>	<b>\$ 10,096,727</b>	<b>\$ 4,260,151</b>	<b>\$ 3,416,506</b>	<b>\$ 964,090</b>	<b>\$ 13,447,832</b>	<b>\$ 32,185,306</b>

UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Scholarships, Tuition Reimbursements and Awards	Salary Supplements and Benefits	Support and Operational Costs	Fundraising and Advancement	Other Program Services	Total
Scholarships and tuition reimbursements	\$ 11,632,566	\$ -	\$ -	\$ -	\$ -	\$ 11,632,566
Salary supplements and benefits	-	5,337,160	-	-	-	5,337,160
Operational salaries and benefits	-	-	1,585,354	-	-	1,585,354
Contributions and grants	-	-	5,000	1,531	7,023,580	7,030,111
Contractual services and professional fees	-	-	1,672,041	94,396	4,647,634	6,414,071
Rent (office, telephone, copier)	-	-	203,614	1,554	657,228	862,396
Food supplies	-	-	65,332	27,014	1,382,822	1,475,168
Printing and advertising	-	-	-	700	183,717	184,417
Fundraising	-	-	-	749,148	-	749,148
Construction costs, maintenance and repairs	-	-	28,617	-	10,469,659	10,498,276
Office supplies, equipment and software	-	-	122,558	30,882	2,910,348	3,063,788
Postage and freight	-	-	2,042	926	12,757	15,725
Telephone	-	-	170	15,858	26,770	42,798
Insurance	-	-	45,469	-	212,270	257,739
Travel	-	-	4,517	6,765	683,176	694,458
Other program supplies and sundries	-	-	41,018	44,907	213,205	299,130
Plaques, engraving and framing	-	-	-	-	38,303	38,303
Awards and honoraria	-	65,151	6,879	2,350	398,847	473,227
Conferences and travel	-	-	4,694	11,255	96,536	112,485
Property and use tax	-	-	-	6,215	177,293	183,508
Fees, subscriptions and dues	-	-	6,820	12,793	249,871	269,484
Instructional materials	-	-	-	280	129,532	129,812
Housing, room costs and moving expenses	-	-	10,613	27,039	402,990	440,642
Trust and annuity expenses	-	-	-	-	356,373	356,373
Split interest adjustment	-	(32,253)	-	-	(130,165)	(162,418)
Bad debt	-	-	-	-	5,000	5,000
Depreciation	-	-	-	6,986	-	6,986
Interest expense - line of credit	-	-	-	-	295,909	295,909
Interest expense - USC Alumni Association loan	-	-	-	-	14,049	14,049
Interest expense - USC Business Partnership loan	-	-	-	-	38,758	38,758
<b>Total Expenses</b>	<b>\$ 11,632,566</b>	<b>\$ 5,370,058</b>	<b>\$ 3,804,738</b>	<b>\$ 1,040,599</b>	<b>\$ 30,496,462</b>	<b>\$ 52,344,423</b>