

College of Charleston Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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Independent Auditors' Report

Board of Directors
College of Charleston Foundation and Subsidiaries
Charleston, South Carolina

We have audited the accompanying consolidated financial statements of College of Charleston Foundation and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of College of Charleston Foundation and Subsidiaries as of June 30, 2017, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Foundation elected to early adopt FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2017. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the College of Charleston Foundation and Subsidiary's 2016 consolidated financial statements, and our report dated September 6, 2016 expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Dixon Hughes Goodman LLP

**Charleston, South Carolina
September 6, 2017**

College of Charleston Foundation and Subsidiaries
Consolidated Statement of Financial Position
June 30, 2017
(with summarized financial information for June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 416,885	\$ 205,420
Unconditional promises to give, net	7,031,191	9,026,325
Other assets	1,143,608	538,082
Investments	90,726,450	81,436,796
Property and equipment, net	6,276,979	6,459,540
Collections	8,812,056	8,743,162
	<u>8,812,056</u>	<u>8,743,162</u>
Total assets	<u>\$ 114,407,169</u>	<u>\$ 106,409,325</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 97,192	\$ 94,498
Deferred revenue	-	119,682
Line of credit	1,350,032	850,032
Annuities payable	73,840	77,570
Marine genomics grant obligation	1,239,402	1,170,981
	<u>1,239,402</u>	<u>1,170,981</u>
Total liabilities	<u>2,760,466</u>	<u>2,312,763</u>
Net Assets:		
Without donor restrictions:		
Board-designated quasi-endowment	1,740,929	1,390,974
Undesignated	7,335,744	7,148,510
	<u>7,335,744</u>	<u>7,148,510</u>
	<u>9,076,673</u>	<u>8,539,484</u>
With donor restrictions:		
Purpose restrictions	45,817,103	42,828,774
Time-restricted for future periods	442,218	430,743
Perpetual in nature	56,310,709	52,538,404
Underwater endowments	-	(240,843)
	<u>-</u>	<u>(240,843)</u>
	<u>102,570,030</u>	<u>95,557,078</u>
Total net assets	<u>111,646,703</u>	<u>104,096,562</u>
Total liabilities and net assets	<u>\$ 114,407,169</u>	<u>\$ 106,409,325</u>

College of Charleston Foundation and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2017
(with summarized financial information for the Year Ended June 30, 2016)

	2017		2016	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, gains, (losses) and other support:				
Contributions	\$ 898,733	\$ 7,966,090	\$ 8,864,823	\$ 13,607,204
Rental income	894,999	-	894,999	894,999
Interest and dividend income, net	521,378	440,322	961,700	819,999
Realized and unrealized gain (loss) on investments, net	505,359	8,268,360	8,773,719	(2,000,406)
Special events, net	-	18,495	18,495	53,424
Other income, net	9,424	415,997	425,421	469,748
Changes in value of split-interest agreements	-	(5,254)	(5,254)	130,152
	2,829,893	17,104,010	19,933,903	13,975,120
Net assets released from restrictions and administrative surcharges	10,276,416	(10,276,416)	-	-
Transfers based on changes in donor intent	(185,358)	185,358	-	-
Total revenues, gains, and other support	12,920,951	7,012,952	19,933,903	13,975,120
Expenses:				
Program:				
Student aid and recognition	3,748,287	-	3,748,287	3,686,562
Programs of education, research, and student and faculty enrichment	6,118,153	-	6,118,153	6,283,193
Total program expenses	9,866,440	-	9,866,440	9,969,755
Supporting services:				
General and administrative	789,569	-	789,569	756,837
Fundraising	1,727,753	-	1,727,753	1,536,753
Total supporting services	2,517,322	-	2,517,322	2,293,590
Total expenses	12,383,762	-	12,383,762	12,263,345
Change in net assets	537,189	7,012,952	7,550,141	1,711,775
Net assets, beginning of year	8,539,484	95,557,078	104,096,562	102,384,787
Net assets, end of year	\$ 9,076,673	\$102,570,030	\$ 111,646,703	\$ 104,096,562

See accompanying notes.

College of Charleston Foundation and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended June 30, 2017
(with summarized financial information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,550,141	\$ 1,711,775
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	(8,773,719)	2,000,406
Depreciation	302,789	304,384
Contributions restricted for long-term investment	(2,195,379)	(3,044,325)
Recovery of uncollectible promises to give	(53,403)	(32,416)
Gain on disposal of property and equipment	-	(27,363)
Noncash contributions of securities and property and equipment	(442,925)	(1,900,165)
Change in operating assets and liabilities:		
Other assets	(605,526)	71,176
Unconditional promises to give	1,361,405	(873,084)
Accounts payable and accrued liabilities	2,694	(33,457)
Deferred revenue	(119,682)	(50,493)
Net cash used by operating activities	<u>(2,973,605)</u>	<u>(1,873,562)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(54,503)	(510,315)
Proceeds from sale of property and equipment	-	50,400
Purchases of investments	(7,109,516)	(9,584,021)
Proceeds from sale of investments	7,653,710	7,954,425
Net cash provided (used) by investing activities	<u>489,691</u>	<u>(2,089,511)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	2,195,379	3,044,325
Net borrowings on line of credit	500,000	250,032
Net cash provided by financing activities	<u>2,695,379</u>	<u>3,294,357</u>
Net change in cash	211,465	(668,716)
Cash and cash equivalents, beginning of year	<u>205,420</u>	<u>874,136</u>
Cash and cash equivalents, end of year	<u>\$ 416,885</u>	<u>\$ 205,420</u>
Supplemental disclosures:		
Receipt of donated securities	<u>\$ 995,438</u>	<u>\$ 727,574</u>
Receipt of donated property	<u>\$ 134,619</u>	<u>\$ 1,172,591</u>
Receipt of donated program items	<u>\$ 1,235,420</u>	<u>\$ 1,229,701</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of activities

The College of Charleston Foundation (the "Foundation") is an eleemosynary corporation that was organized in 1970 to accept, solicit, invest and manage private donations given on behalf of the College of Charleston (the "College"). Major sources of income consist primarily of donor contributions and investment income. Gifts to the Foundation qualify for deductibility for income, gift, and estate tax purposes. The Foundation provides support to the College for two primary purposes.

Student aid and recognition

The Foundation provides student aid and recognition to students of the College primarily through scholarships, grants, and award programs.

Programs of education, research, and student and faculty enrichment

The Foundation provides funding to the College to promote programs of education, research, student enrichment, and faculty development.

Basis of consolidation

The consolidated financial statements include the accounts of the College of Charleston Foundation and its wholly owned subsidiaries, Dixie Plantation Educational Holdings, LLC (formed July 1, 2013); Blacklock House Educational Holding, LLC (formed July 1, 2014); Bull Street Student Housing, LLC (formed July 1, 2014); Coming Wentworth and King Educational Holdings, LLC (formed July 1, 2014); Bull and Wentworth Student Housing LLC (formed July 1, 2014); and The College of Charleston Foundation Publishing Company, LLC (formed March 26, 2015). These entities are collectively referred to herein as the College of Charleston Foundation and Subsidiaries ("the Foundation"). All intercompany transactions and balances have been eliminated in consolidation.

Comparative information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

New accounting pronouncement

Effective July 1, 2016, the Foundation early adopted FASB Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ("ASU 2016-14"). The provisions of ASU 2016-14 are intended to simplify and improve the presentation of net assets, as well as information regarding liquidity, financial performance and cash flows. ASU 2016-14 revises the net asset classification structure to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three. ASU 2016-14 also enhances disclosures for self-imposed limits on the use of resources both with and without donor-imposed restrictions and requires qualitative disclosures on liquidity and the availability of resources to fund operations. The summarized consolidated financial information for the year ending June 30, 2016 has been retroactively restated for the effects of the adoption of ASU 2016-14, which resulted in temporarily and permanently restricted net assets being reported as net assets with donor restrictions. There was no change in total net assets or effect on the change in net assets in the accompanying summarized consolidated statement of activities for the year ended June 30, 2016.

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

Fair value of financial instruments

The carrying values of cash and cash equivalents, other assets, accounts payable and accrued liabilities, deferred revenue and line of credit approximate fair value because of the terms and relative short maturity of these financial instruments. Unconditional promises to give and annuities payable are reported at the discounted present value, which approximates fair value. The carrying values, which are the fair values of investments, are based on values provided by external investment managers or comparison to quoted market values.

Cash and cash equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less from date of purchase to be cash equivalents, except cash held in its long-term investment portfolio. For purposes of the statements of cash flows, cash and cash equivalents included in investments functioning as endowment investments are not considered cash and cash equivalents.

Promises to give

Unconditional promises to give are recognized as revenue when the donor commits the gift. Conditional promises to give are recognized as revenue when the specified conditions are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions.

The Foundation reports promises to give net of an allowance for uncollectible accounts. The allowance is based on historical collection experience and management's assessment of individual donor circumstances.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value based upon quoted market prices. Investments in limited partnerships are stated at fair values based upon financial information provided by external investment partners. Because limited partnership interests are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for the investments existed. Investments donated to the Foundation are initially recorded at fair value on the date of the gift. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the consolidated statement of activities.

Investment income is recorded net of investment expenses. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of disposal. Unrealized gains or losses are calculated by comparing cost to market values at the statement of financial position date.

Investment pools

The Foundation maintains master investment accounts for its donor-restricted and board-designated endowments. Investment income and expenses, including unrealized gains and losses from securities in the master investment accounts, are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the fair value of the master investment accounts, adjusted for additions to or deductions from those accounts.

Property and equipment

Property and equipment is recorded at cost or, if donated, at its fair value on the date donated. Depreciable assets are depreciated by the straight-line method over the assets' estimated useful lives. The Foundation generally capitalizes expenditures for property and equipment in excess of \$5,000.

College of Charleston Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Donations of property and equipment that are not restricted as to their use by the donor are recorded as increases in net assets without donor restrictions. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions each year for the amount of depreciation expense relating to restricted donated property and equipment.

Collections

Collection items include cultural and historical treasures. Such items are carried at cost, if purchased or at fair value at the date of the contribution, if donated. Depreciation is not recorded for collection items.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowment to be used for strategic purposes as determined by the board.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Administrative fees

The Foundation charges an administrative fee to net assets with donor restrictions and transfers this amount to net assets without donor restrictions to cover management, custody, and administration expenses. For the year ended June 30, 2017, the Foundation charged administrative fees on endowed and non-endowed restricted funds of \$870,445 and \$198,838 respectively, for a total of \$1,069,283. For the year ended June 30, 2016, the Foundation charged administrative fees on endowed and non-endowed restricted funds of \$862,720 and \$165,710 respectively, for a total of \$1,028,430. There are two separate administrative fees, but only one type will be assessed to a fund: non-endowed fee or endowed fee. The non-endowed fee is set at 5% and is a one-time assessment applied to revenues in the month deposited to a non-endowed fund. This non-endowed fee is not applied to gifts to scholarships funds. The endowed fee is a maximum of 1.25% annually and is calculated based on the weighted average daily balance of an endowed fund.

Contributions

Contributions are recognized as revenue when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated services

The Foundation does not generally record revenue for donated services. The Foundation generally pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with campaign solicitations and various committee assignments.

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Note 16 presents the natural classification detail of the expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income tax status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2017.

Contributions made to the Foundation qualify for the charitable contribution deduction under Section 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code.

Use of estimates

The preparation of the 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 certain reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Significant estimates include the estimated fair value of investments in limited partnerships and the allowance for uncollectable promises to give. It is at least reasonably possible that the significant estimates used will change within the next year.

Subsequent Events

The Foundation has evaluated subsequent events through September 6, 2017, the date the consolidated financial statements were available to be issued. There were no significant subsequent events that required disclosure except for the Foundation repaid a portion of the line of credit as disclosed in Note 8.

2. Credit Risk

The Foundation places its cash and cash equivalents on deposit with commercial banks. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for each interest bearing account. At times, the Foundation may maintain bank account balances in excess of the FDIC insured limit. The Foundation has not experienced losses in such deposit accounts and believes it is not exposed to any significant credit risk in this regard.

The Foundation is also subject to concentration of credit risk related to its unconditional promises to give. Contributions and unconditional promises to give consist of gift amounts from individuals and businesses predominantly located in the State of South Carolina. At June 30, 2017, no donor represented a concentration. At June 30, 2016, promises to give from three donors accounted for approximately 26% of the total unconditional promises to give balance.

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

3. Liquidity and Availability of Resources

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprise the following:

Cash and cash equivalents	\$ 416,885
Unconditional promises to give	1,424,855
Estimated endowment spending-rate distributions and appropriations	<u>2,970,150</u>
Total available for general expenditure within one year	<u>\$ 4,811,890</u>

The Foundation funds its operations primarily through administrative fees charged to endowed and non-endowed restricted funds and rental income from properties leased to the College.

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditures.

The Foundation's board-designated endowment of \$1,740,929 at June 30, 2017, is subject to an annual spending rate of 4.5 percent as described in Note 11. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriations), these amounts could be made available if necessary.

Additionally, the Foundation maintains a \$5 million line of credit, as disclosed in more detail in Note 8. As of June 30, 2017, \$3.7 million remained available on the line credit.

4. Promises to Give

Unconditional promises to give at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 3,556,961	\$ 3,889,922
Receivable in one to five years	4,232,714	5,888,355
Receivable in more than five years	<u>92,855</u>	<u>342,717</u>
	7,882,530	10,120,994
Allowance for uncollectible promises receivable	(497,749)	(551,152)
Discount to present value	<u>(353,590)</u>	<u>(543,517)</u>
Unconditional promises to give, net	<u>\$ 7,031,191</u>	<u>\$ 9,026,325</u>

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

5. Investments

A summary of investments held by the Foundation as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 213,555	\$ 213,555	\$ 343,301	\$ 343,301
Equity securities	127,086	125,795	422,728	428,045
Fixed income and multi-asset funds	18,795,951	18,930,300	18,890,743	17,449,475
Multi-strategy limited partnership	<u>64,120,668</u>	<u>71,456,800</u>	<u>60,419,971</u>	<u>63,215,975</u>
Total	<u>\$ 83,257,260</u>	<u>\$ 90,726,450</u>	<u>\$ 80,076,743</u>	<u>\$ 81,436,796</u>

See Note 6 for disclosure of investment strategies and composition of investment funds.

Investment return is summarized as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 931,181	\$ 791,080
Investment transaction fee rebate, net	30,519	28,919
Realized and unrealized gains (losses), net	<u>8,773,719</u>	<u>(2,000,406)</u>
Total	<u>\$ 9,735,419</u>	<u>\$ (1,180,407)</u>

6. Fair Value Measurements of Assets and Liabilities

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

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

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Foundations policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between fair value levels for the years ended June 30, 2017 and 2016.

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 investments include cash and cash equivalents, which are temporarily held in the Foundation's long-term investment portfolio, and equity securities (see Note 5).

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

Certain investments that are valued at the net asset value per share provided by the investment manager as a practical expedient are no longer categorized within the fair value hierarchy. As a result, the Foundation's investments held in the short-term fixed income, multi-asset, and the limited partnership funds managed by The Investment Fund for Foundations (TIFF) are not categorized within the fair value hierarchy.

The following table sets forth a summary of the Foundation's investments with a reported estimated fair value using net asset value per share at June 30, 2017:

	2017			
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Redemption Terms and Restrictions</u>
Fixed income fund ^(a)	\$ 1,306,454	daily	none	none
Multi-asset fund ^(b)	17,623,846	daily	none	.50% entry/exit fee
Multi-strategy limited partnership ^(c)	<u>71,456,800</u>	quarterly	180 days	12 month initial
Total assets at fair value	<u>\$ 90,387,100</u>			

The following table sets forth a summary of the Foundation's investments with a reported estimated fair value using net asset value per share at June 30, 2016:

	2016			
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Redemption Terms and Restrictions</u>
Fixed income fund ^(a)	\$ 1,363,848	daily	none	none
Multi-asset fund ^(b)	16,085,627	daily	none	.50% entry/exit fee
Multi-strategy limited partnership ^(c)	<u>63,215,975</u>	quarterly	180 days	12 month initial
Total assets at fair value	<u>\$ 80,665,450</u>			

There were no unfunded commitments outstanding as of years ended June 30, 2017 and 2016.

- (a) The fund invests in short-term debt instruments, primarily in U.S. treasury bills.
- (b) The fund invests primarily in global stocks, high yield bonds, commodities, real estate interest trusts, inflation-linked bonds, and cash equivalents, and seeks to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index (CPI) plus 5% per annum.
- (c) The fund's investment objective is to maximize annualized returns net of all costs over rolling 10 year periods while adhering to the fund's risk parameters which seek to limit to not greater than 10% the probability of a 25% or greater decline in the fund's inflation-adjusted value measured over any rolling three year period. The fund invests globally in multiple asset classes and in both publicly traded and privately placed securities, properties, and other assets, either directly or through commingled investment vehicles, including private equity funds, private realty funds, natural resources funds, and hedge funds. Additional redemption terms: the Partnership will endeavor to distribute 50% of withdrawal proceeds within 30 days of an applicable withdrawal request; however, proceeds expected from any intermediate or long-term assets may take significantly longer to liquidate.

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

7. Property and Equipment

Major classifications of property and equipment consist of the following as of June 30, 2017 and 2016:

	<u>Estimated Useful Life In Years</u>	<u>2017</u>	<u>2016</u>
Land		\$ 3,677,104	\$ 3,677,104
Land improvements	15 – 20	1,029,615	1,029,615
Building and building improvements	5 – 27	2,961,585	2,961,585
Equipment and furnishings	5 – 20	866,512	865,912
Boats	10	960,968	941,343
Horses	10	786,250	711,250
		10,282,034	10,186,809
Less: accumulated depreciation		(4,005,055)	(3,727,269)
Property and equipment, net		<u>\$ 6,276,979</u>	<u>\$ 6,459,540</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$302,789 and \$304,384, respectively.

8. Line of Credit

The Foundation has an unsecured line of credit with a financial institution. Total availability on the line of credit is \$5,000,000 with a maturity date of November 30, 2018. Interest is payable monthly based on the one month LIBOR rate plus 1.2% (2.42% at June 30, 2017). At June 30, 2017 and 2016, the outstanding balance on the line of credit was \$1,350,032 and \$850,032, respectively. The agreement contains certain affirmative covenants and requires the maintenance of a depository account with the financial institution with specified balances to be maintained based on the type of account held. Subsequent to year end on July 14, 2017, the Foundation repaid the \$500,000 drawdown in June 2017.

9. Marine Genomics Grant

The College and the Medical University of South Carolina (“MUSC”) have joined together to raise non-state matching funds for collaborative research in Applied Marine Genomics. The South Carolina General Assembly passed the South Carolina Research Centers of Excellence Act in 2002, to provide a competitive grants program to the State’s research universities. The grants program provides funding to endow professorships and requires a dollar-for-dollar match. The College requested assistance from the Foundation to secure \$1,000,000 in funds to use as a match in its collaboration with MUSC. The College and MUSC entered into an agreement to have the College accept \$1,000,000 to be held and invested by the Foundation, along with the \$1,000,000 match to endow the Research Center Professorship in Applied Marine Genomics. The Foundation and College entered into an agreement under South Carolina Code of Laws Section 59-101-410, whereby the College desired to lend endowment funds to the Foundation to maximize the College’s investment yield. The collaborative research project is intended to be a permanent program; however, in the event the program is discontinued, the Foundation would be required to return the grant funds plus any earnings less any authorized program spending and customary administrative fees. Changes in the endowment value are recorded as a faculty enrichment expense on the statement of activities. During the years ended June 30, 2017 and 2016, \$85,793 and \$81,176 of funds were disbursed to support the professorship. The marine genomics grant obligation was \$1,239,402 and \$1,170,981 at June 30, 2017 and 2016, respectively.

10. Split-Interest Agreements

The Foundation holds assets related to charitable gift annuities. Assets related to charitable gift annuities are recorded at their fair values when received and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the donor or other designated beneficiary. Assets held for the charitable gift annuities totaled \$82,365 and \$91,349 at June 30, 2017 and 2016, respectively, and are reported as investments in the accompanying statements of financial position.

On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using various credit risk adjusted discount rates and applicable mortality tables. The annuities payable balance for the unitrusts and charitable gift annuities totaled \$73,840 and \$77,570 at June 30, 2017 and 2016, respectively.

11. Endowment Funds

The Foundation's endowment consists of approximately 510 individual funds established for a variety of purposes including funds established by donors to provide annual funding for specific activities and general operations, and certain net assets without donor restrictions that have been designated for endowment by the Board of Directors. 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 and the Foundation's interpretation of relevant law.

Interpretation of Relevant Law

The Foundation has interpreted the South Carolina Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2017 and 2016, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gifts amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and, (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by management in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider 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

College of Charleston Foundation and Subsidiaries
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Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,740,929	\$ -	\$ 1,740,929
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	56,310,709	56,310,709
Accumulated investment gains	-	19,295,209	19,295,209
Total endowment funds	<u>\$ 1,740,929</u>	<u>\$ 75,605,918</u>	<u>\$ 77,346,847</u>

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

	<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 1,390,974	\$ 67,217,431	\$ 68,608,405
Investment income	81,360	92,590	173,950
Net appreciation	100,510	7,777,653	7,878,163
Contributions	-	3,571,983	3,571,983
Appropriation of endowment assets pursuant to spending-rate policy	(139,100)	(3,350,469)	(3,489,569)
Changes in donor designations and transfers to the endowment pool	307,185	296,730	603,915
Endowment net assets, June 30, 2017	<u>\$ 1,740,929</u>	<u>\$ 75,605,918</u>	<u>\$ 77,346,847</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	<u>2016</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,390,974	\$ -	\$ 1,390,974
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	52,538,404	52,538,404
Accumulated investment gains	-	14,679,027	14,679,027
Total endowment funds	<u>\$ 1,390,974</u>	<u>\$ 67,217,431</u>	<u>\$ 68,608,405</u>

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

	2016		Total
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Endowment net assets, June 30, 2015	\$ 1,074,915	\$ 66,235,752	\$ 67,310,667
Investment income	69,945	68,914	138,859
Net depreciation	(109,069)	(825,333)	(934,402)
Contributions	-	4,003,550	4,003,550
Appropriation of endowment assets pursuant to spending-rate policy	(33,817)	(2,410,189)	(2,444,006)
Changes in donor designations and transfers to the endowment pool	<u>389,000</u>	<u>144,737</u>	<u>533,737</u>
Endowment net assets, June 30, 2016	<u>\$ 1,390,974</u>	<u>\$ 67,217,431</u>	<u>\$ 68,608,405</u>

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2017 and 2016, funds with deficiencies of \$0 and \$240,843, respectively, were reported in net assets with donor restrictions.

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 a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the Investment Policy benchmark index, over short and long term periods, while assuming a moderate level of investment risk.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximating the Consumer Price Index plus 5%, net of fees. Actual returns in any given year may vary from this amount.

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 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 expenditure each year up to 4.5% of its endowment funds' average fair value using the prior twelve quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to achieve the return objectives as disclosed above. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return.

College of Charleston Foundation and Subsidiaries
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12. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2017</u>	<u>2016</u>
Subject to expenditure for specified purpose:		
Capital projects	\$ 1,779,257	\$ 1,498,065
Programs	16,438,274	16,710,374
Awards and scholarships	3,150,993	2,986,557
Professorships and chairs	98,151	-
Special events	20,696	88,958
Other	277,414	-
Promises to give, the proceeds from which have been restricted by donors	<u>4,757,109</u>	<u>6,624,950</u>
	<u>26,521,894</u>	<u>27,908,904</u>
Subject to the passage of time:		
Net assets held under split interest agreements	8,525	13,779
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>433,693</u>	<u>416,964</u>
	<u>442,218</u>	<u>430,743</u>
Endowments:		
Subject to appropriation and expenditure when specified event occurs:		
General use	223,890	188,782
Programs	5,562,855	4,309,434
Professorships and chairs	2,050,458	1,630,650
Library	375,384	307,540
Awards and scholarships	<u>11,082,622</u>	<u>8,483,464</u>
	<u>19,295,209</u>	<u>14,919,870</u>
Subject to endowment spending policy and appropriation:		
General use	248,580	248,580
Programs	15,097,095	14,016,355
Professorships and chairs	5,164,386	4,778,077
Library	702,966	702,966
Awards and scholarships	33,257,293	30,808,015
Unconditional promises to give, net – permanently restricted to endowment	1,840,389	1,984,411
Underwater endowments	<u>-</u>	<u>(240,843)</u>
	<u>56,310,709</u>	<u>52,297,561</u>
Total endowments	<u>75,605,918</u>	<u>67,217,431</u>
Total net assets with donor restrictions	<u>\$102,570,030</u>	<u>\$ 95,557,078</u>

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of by occurrence of the passage time or other events specified by the donors as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Expiration of time restrictions	<u>\$ 247,818</u>	<u>\$ 221,831</u>
Satisfaction of purpose restrictions:		
Programs	4,972,202	5,540,942
Awards and scholarships	1,560,887	1,353,848
Other	<u>145,040</u>	<u>284,003</u>
	<u>6,678,129</u>	<u>7,178,793</u>
Restricted-purpose spending-rate distributions and appropriations:		
General use	16,393	5,456
Programs	861,192	328,967
Professorships and chairs	333,228	209,890
Library	50,078	16,353
Awards and scholarships	<u>2,089,578</u>	<u>1,849,523</u>
	<u>3,350,469</u>	<u>2,410,189</u>
	<u>\$ 10,276,416</u>	<u>\$ 9,810,813</u>

13. Rental Income

Rental income for years ended June 30, 2017 and 2016 was approximately \$895,000 and \$895,000, respectively. Property is leased to the College for parking, student housing, office space, and use of the Blacklock House. In 2015, the Foundation and College executed five year agreements, expiring in 2020, for each of the properties leased to the College with the exception of Trujillo Spain and Dixie Plantation. The Trujillo Spain lease was renewed in 2014 and expires in 2019, subject to annual renewal by the College. The Dixie Plantation lease was renegotiated in 2015 and expires in 2038. Renewal options are not included in the future minimum lease payments in the table below. Future minimum lease payments to be received at June 30, 2017 are as follows:

Year Ending	
<u>June 30,</u>	
2018	\$ 729,000
2019	695,000
2020	635,000
2021	100,000
2022	100,000
Thereafter	<u>1,600,000</u>
	<u>\$ 3,859,000</u>

14. Lease Assignment

In August 2014, the Foundation purchased an assignment of a building lease for \$479,835. Monthly lease payments are due from the Foundation under this lease to the building's owner of \$6,738 from the date of assignment through October 2021, when the original lease expires. The lease contains a sublease and the Foundation was granted assignment to receive the rental payments under the sublease. The sublease entitles the Foundation to receive payments of \$10,500 from the date of assignment through December 2016 and \$10,875 from January 2017 through December 2017. In June 2017, the sublease was renewed through February 28, 2021. A lease receivable, recorded in the statement of financial position as a component of other assets, represents the present value of the assigned sub-lessee's future contractual payments. The present value of the minimum lease payments to be received under this sublease as of June 30, 2017 is \$54,264. Rent expense under the lease for years ended June 30, 2017 and 2016 was \$96,024 and \$80,859, respectively.

Expected future minimum lease payments due and sublease payments to be received are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>	<u>Sublease Receipts</u>
2018	\$ 80,856	\$ 133,763
2019	80,856	140,445
2020	80,856	147,465
2021	80,856	100,710
2022	<u>26,952</u>	<u>-</u>
	<u>\$ 350,376</u>	<u>\$ 522,383</u>

15. Related Party Transactions

The Foundation is discretely presented as a component unit of the College's financial statements in accordance with standards established by the Governmental Accounting Standards Board.

The Foundation exists solely to provide financial assistance and other support to the College. The College operates on a fiscal year ended June 30. The Foundation has reimbursed the College \$7,315,828 and \$6,970,353 for the years ended June 30, 2017 and 2016, respectively, for personnel and other operating expenses. The Foundation has accrued expenses of approximately \$80,539 and \$112,695 due to the College as of June 30, 2017 and 2016, respectively.

The Foundation has unconditional promises to give due from Board members, faculty and staff of \$856,597 and \$1,378,372 at June 30, 2017 and 2016, respectively.

The Foundation uses a facility owned by the College of Charleston in connection with its operations.

College of Charleston Foundation and Subsidiaries
Notes to Consolidated Financial Statements

16. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Expense allocation for the year ended June 30, 2017 is as follows:

	2017			
	Program	General & Administrative	Fundraising	Total
Support on behalf of the College	\$ 5,860,280	\$ 33,833	\$ 1,394	\$ 5,895,507
Scholarships and awards for the College	3,748,287	-	-	3,748,287
Personnel	-	288,439	985,617	1,274,056
Occupancy	-	230,101	-	230,101
Administration	1,000	164,152	553,385	718,537
Professional development	-	32,023	16,771	48,794
Depreciation	256,873	41,031	4,885	302,789
Donor cultivation/stewardship	-	-	165,701	165,701
Total	<u>\$ 9,866,440</u>	<u>\$ 789,579</u>	<u>\$ 1,727,753</u>	<u>\$ 12,383,772</u>

Expense allocation for the year ended June 30, 2016 is as follows:

	2016			
	Program	General & Administrative	Fundraising	Total
Support on behalf of the College	\$ 6,027,987	\$ 29,695	\$ 7,536	\$ 6,065,218
Scholarships and awards for the College	3,686,562	-	-	3,686,562
Personnel	-	279,221	991,001	1,270,222
Occupancy	846	196,526	-	197,372
Administration	-	174,091	312,642	486,733
Professional development	-	34,174	18,842	53,016
Depreciation	254,360	43,130	6,894	304,384
Donor cultivation/stewardship	-	-	199,838	199,838
Total	<u>\$ 9,969,755</u>	<u>\$ 756,837</u>	<u>\$ 1,536,753</u>	<u>\$ 12,263,345</u>

17. Commitments

The Foundation renewed the memorandum of understanding (“MOU”) with the Alumni Association on May 29, 2015, for another three year period. Under the terms of the MOU, the Foundation has agreed to pay the Alumni Association \$125,000 in each fiscal year from 2016 to 2018. This agreement can be cancelled with a 60 days’ notice by either party, therefore this commitment is not recorded as a liability in the statement of financial position at June 30, 2017.

The Foundation has committed to provide funding to certain programs and projects for the College of Charleston. As of June 30, 2017, the Foundation has committed to provide funding for the following: Addlestone Library Student Center - \$126,000; Jewish Studies Center Expansion - \$1,000,000; Jewish Heritage Center - \$100,000; Arnold Hall Kitchen Renovation - \$111,950; and Dixie Field Stations - \$31,446.

In June 2016, the Foundation entered into a computer consulting contract for a three year term requiring annual payments of \$69,550.

In August 2016, the Foundation agreed to fund up to \$500,000 for a Squash Center at the College of Charleston subject to certain conditions.