# Ashley Hall Foundation

*Report on Financial Statements*

***For the years ended June 30, 2014 and 2013***

*Contents*

elliott davis

**Independent Auditor's Report**

To the Board of Trustees
Ashley Hall Foundation
Charleston, South Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of Ashley Hall Foundation, which comprise the statements of financial position as of June 30, 2014 and 2013, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ashley Hall Foundation as of June 30, 2014 and 2013, 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.

Elliott Davis, LLC

Greenville, South Carolina
November 20, 2014

# Ashley Hall Foundation

***Statements of Financial Position***

***As of June 30, 2014 and 2013***

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 1,035,529 | $ 1,452,050 |
| Cash restricted | 910,719 | 1,085,470 |
| Accounts receivable, net | 246,215 | 201,664 |
| Other receivables | 4,411 | 8,766 |
| Prepaid expenses | 135,067 | 90,113 |
| Unconditional promises to give, net | 848,191 | 871,785 |
| Investments | 9,873,978 | 8,955,303 |
| Property and equipment, net | 32,147,832 | 31,556,564 |
| Other assets | 193,677 | 201,948 |
| Total assets | $ 45,395,619 | $ 44,423,663 |
| **Liabilities and Net Assets** | | |
| ***Liabilities*** | | |
| Accounts payable | $ 668,340 | $ 268,687 |
| Accrued expenses | 1,020,573 | 945,244 |
| Unearned revenue | 4,725,342 | 4,543,388 |
| Lease payable | 11,745 | 85,270 |
| Bonds payable | 18,895,000 | 19,460,000 |
| Interest rate swap liability | 305,665 | 473,447 |
| Agency funds | 151,754 | 129,398 |
| Total liabilities | 25,778,419 | 25,905,434 |
| ***Net assets*** | | |
| Unrestricted | | |
| Board designated | 7,575,249 | 7,048,702 |
| Other unrestricted | 7,506,567 | 7,595,501 |
| | 15,081,816 | 14,644,203 |
| Temporarily restricted | 3,968,938 | 3,317,580 |
| Permanently restricted | 566,446 | 556,446 |
| Total net assets | 19,617,200 | 18,518,229 |
| Total liabilities and net assets | $ 45,395,619 | $ 44,423,663 |

***See Notes to Financial Statements.***

## Ashley Hall Foundation

***Statement of Activities***

***For the year ended June 30, 2014***

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***Revenue, gains, losses and other support*** | | | | |
| Gross tuition and fees | $ 13,515,996 | $ - | $ - | $ 13,515,996 |
| Less: Scholarships | (1,462,999) | - | - | (1,462,999) |
| Net tuition and fees | 12,052,997 | - | - | 12,052,997 |
| Auxiliary services | 429,259 | - | - | 429,259 |
| Contributions | 698,804 | 900,765 | 10,000 | 1,609,569 |
| Net realized and unrealized gain on investments | 432,118 | 222,129 | - | 654,247 |
| Decrease in liability on interest rate swap | 167,782 | - | - | 167,782 |
| Restoration of previous donor restricted funding deficiency | 565 | (565) | - | - |
| Interest and dividends, net | 128,891 | 66,827 | - | 195,718 |
| Finance charges | 31,594 | - | - | 31,594 |
| Other income | 6,969 | - | - | 6,969 |
| Subtotal | 13,948,979 | 1,189,156 | 10,000 | 15,148,135 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 537,798 | (537,798) | - | - |
| Total revenue, gains, losses and other support | 14,486,777 | 651,358 | 10,000 | 15,148,135 |
| ***Expenses*** | | | | |
| ***Program Services*** | | | | |
| Instruction | 10,649,218 | - | - | 10,649,218 |
| Auxiliary | 264,102 | - | - | 264,102 |
| Total program services | 10,913,320 | - | - | 10,913,320 |
| ***Supporting Services*** | | | | |
| General and administrative | 2,914,010 | - | - | 2,914,010 |
| Fundraising | 221,834 | | - | 221,834 |
| Total supporting services | 3,135,844 | - | - | 3,135,844 |
| Total expenses | 14,049,164 | - | - | 14,049,164 |
| Change in net assets | 437,613 | 651,358 | 10,000 | 1,098,971 |
| ***Net assets, beginning*** | 14,644,203 | 3,317,580 | 556,446 | 18,518,229 |
| ***Net assets, ending*** | $ 15,081,816 | $ 3,968,938 | $ 566,446 | $ 19,617,200 |

***See Notes to Financial Statements.***

## Ashley Hall Foundation

***Statement of Activities***

***For the year ended June 30, 2013***

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***Revenue, gains, losses and other support*** | | | | |
| Gross tuition and fees | $ 12,703,253 | $ - | $ - | $ 12,703,253 |
| Less: Scholarships | (1,447,239) | - | - | (1,447,239) |
| Net tuition and fees | 11,256,014 | - | - | 11,256,014 |
| Auxiliary services | 494,997 | - | - | 494,997 |
| Contributions | 719,500 | 2,448,917 | 10,000 | 3,178,417 |
| Net realized and unrealized gain on investments | 265,183 | 114,013 | - | 379,196 |
| Decrease in liability on interest rate swap | 457,378 | - | - | 457,378 |
| Restoration of previous donor restricted funding deficiency | 9,920 | (9,920) | - | - |
| Interest and dividends, net | 133,149 | 59,383 | - | 192,532 |
| Finance charges | 31,976 | - | - | 31,976 |
| Other income | 1,809 | - | - | 1,809 |
| Subtotal | 13,369,926 | 2,612,393 | 10,000 | 15,992,319 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 2,451,583 | (2,451,583) | - | - |
| Total revenue, gains, losses and other support | 15,821,509 | 160,810 | 10,000 | 15,992,319 |
| ***Expenses*** | | | | |
| ***Program Services*** | | | | |
| Instruction | 10,646,585 | - | - | 10,646,585 |
| Auxiliary | 264,037 | - | - | 264,037 |
| Total program services | 10,910,622 | - | - | 10,910,622 |
| ***Supporting Services*** | | | | |
| General and administrative | 2,578,071 | - | - | 2,578,071 |
| Fundraising | 249,529 | | - | 249,529 |
| Total supporting services | 2,827,600 | - | - | 2,827,600 |
| Total expenses | 13,738,222 | - | - | 13,738,222 |
| Change in net assets | 2,083,287 | 160,810 | 10,000 | 2,254,097 |
| ***Net assets, beginning*** | 12,560,916 | 3,156,770 | 546,446 | 16,264,132 |
| ***Net assets, ending*** | $ 14,644,203 | $ 3,317,580 | $ 556,446 | $ 18,518,229 |

***See Notes to Financial Statements.***

## Ashley Hall Foundation

***Statements of Cash Flows***

***For the years ended June 30, 2014 and 2013***

| | 2014 | 2013 |
|---|---|---|
| ***Operating activities*** | | |
| Change in net assets | $ 1,098,971 | $ 2,254,097 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,104,278 | 1,089,856 |
| Amortization | 8,271 | 8,271 |
| Net realized and unrealized gain on investments | (654,247) | (379,196) |
| Change in interest rate swap liability | (167,782) | (457,378) |
| Contributions permanently restricted for investment in endowment | (10,000) | (10,000) |
| Changes in accrued and deferred amounts: | | |
| Receivables, net | (40,196) | (50,553) |
| Prepaid expenses | (44,954) | 25,367 |
| Unconditional promises to give, net | 23,594 | 234,174 |
| Payables and accrued expenses | 474,982 | 118,889 |
| Unearned revenue | 181,954 | (47,344) |
| Agency funds | 22,356 | 29,763 |
| Net cash provided by operating activities | 1,997,227 | 2,815,946 |
| ***Investing activities*** | | |
| Purchase of property and equipment | (1,695,546) | (2,229,531) |
| Dividends and interest reinvested | (205,282) | (199,579) |
| Purchase of investments | (2,235,599) | (3,165,668) |
| Proceeds from sale of investments | 2,176,453 | 2,873,546 |
| Contributions permanently restricted for investment in endowment | 10,000 | 10,000 |
| Net cash used in investing activities | (1,949,974) | (2,711,232) |
| ***Financing activities*** | | |
| Payments on bonds payable | (565,000) | (540,000) |
| Payments on capital lease | (73,525) | (87,674) |
| Net cash used in financing activities | (638,525) | (627,674) |
| Net decrease in cash and cash equivalents | (591,272) | (522,960) |
| ***Cash and cash equivalents, beginning of year*** | 2,537,520 | 3,060,480 |
| ***Cash and cash equivalents, end of year*** | $ 1,946,248 | $ 2,537,520 |
| ***Supplemental disclosures*** | | |
| Interest paid | $ 258,258 | $ 576,422 |
| ***Reconciliation of cash and cash equivalents*** | | |
| Unrestricted | $ 1,035,529 | $ 1,452,050 |
| Restricted | 910,719 | 1,085,470 |
| ***Cash and cash equivalents, end of year*** | $ 1,946,248 | $ 2,537,520 |

***See Notes to Financial Statements.***

## Note 1. Nature of Activities and Summary of Significant Accounting Policies

*Nature of Activities:*

Ashley Hall Foundation (the Foundation) is an eleemosynary corporation organized under the laws of the state of South Carolina to conduct a school for educational purposes and provide support necessary or useful in the accomplishment of that purpose. Programs include instructional and auxiliary services. The Foundation is supported primarily through tuition revenues and donor contributions. The Foundation is a private school operating in Charleston, South Carolina. The majority of the student body is from that area.

*Basis of Accounting:*

The financial statements of the Foundation have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Net assets have been grouped into the following three classes:

> *Unrestricted net assets* are not subject to donor-imposed stipulations and include all revenues, expenses gains and losses that are not changes in temporarily or permanently restricted net assets. Unrestricted net assets include the Foundation's operating accounts.
>
> *Temporarily restricted net assets* include gifts, grants, income, gains and pledges for which donor imposed or time restrictions have not yet been met.
>
> *Permanently restricted net assets* include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested.

*Cash and Cash Equivalents:*

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash temporarily held in the Foundation's long-term investment portfolio is excluded. Cash held for bond principal payments as a requirement of the letter of credit, as well as collateral deposits securing the swaps, are classified as cash restricted in the Statements of Financial Position.

*Accounts Receivable:*

Tuition receivables are recorded when revenue is earned. After 30 days, these receivables are considered past due and interest begins accruing. Interest accrues until the account is collected or deemed uncollectible by management and written off.

Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recognized when received.

**Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

*Promises to Give:*

Unconditional promises to give are recorded when received and discounted to present value. Amounts to be received are considered delinquent 90 days after the payment date.

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

*Investments/Endowment Funds:*

Investments of marketable equity securities with readily determinable fair values and all investments in debt securities are carried at fair market value. Investments donated to the Foundation are initially recorded at market value on the date of gift. Unrealized gains and losses are included in the change in net assets in the Statements of Activities.

Life insurance policies owned by the Foundation are included in investments at their cash surrender values.

Certain of the Foundation's investments have been designated by donors as endowment funds. South Carolina follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Trustees of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds only when the donor explicitly stipulates such preservation of value. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) 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 as 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 UPMIFA. In accordance with UPMIFA, 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

## Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

*Investments/Endowment Funds, continued:*

*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, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of broad market measures of return on investments.

*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 desired investment objective of the fund is a long-term rate of return on assets that is at least 5% greater than the rate of inflation as measured by the Consumer Price Index. The target rate of return for the fund has been based upon the assumption that future real returns will approximate the long-run rates of return experienced for each asset class.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*
The Foundation's spending rate of the Ashley Hall Board Restricted Investment Fund (not to include the permanently restricted endowment or the Lane Family Scholarship Fund) is equal to four and one-half percent (4.5) of a three-year moving average of the fair market value of the fund's corpus determined on each successive December 31st, for the preceding twelve quarters plus 4.5% of the amount raised in the prior calendar year on capital contributions. In applying this policy, the Foundation considers 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 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.

*Property and Equipment:*

It is the Foundation's policy to capitalize all expenditures for property and equipment in excess of $5,000. Property is recorded at cost or at estimated fair market value at date of gift, if donated. Depreciation of property and equipment is provided by the straight-line method calculated on estimated useful lives ranging from three to fifty years.

*Unearned Revenue:*

Unearned revenue primarily consists of tuition prepaid on behalf of students for the coming school year.

*Agency Funds:*

The Foundation acts as a custodian of cash for the parents and alumnae associations and for student clubs and activities. These amounts are shown on the Statements of Financial Position as a liability.

**Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

*Derivative Financial Instruments:*

The Foundation uses derivative financial instruments to reduce interest rate risk on its debt, not for trading or speculative purposes. Interest rate swap agreements are used to manage the variable interest rate on bonds payable. Under these interest rate swap agreements, the Foundation agrees to pay an amount equal to a specified fixed rate of interest times the notional principal amount. These amounts are settled on a net basis monthly and recorded as interest expense. The notional amounts of the contract are not exchanged. The Foundation is exposed to credit losses in the event of nonperformance by other parties to the interest rate swap agreements. The Foundation does not anticipate nonperformance by counterparties.

The Foundation records these derivative instruments at fair value as a liability or asset in the Statements of Financial Position. Changes in the fair value of derivatives are reported as a gain or loss in the Statements of Activities.

*Revenue Recognition:*

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Revenue from tuition and fees is recognized in the school year to which it applies. Amounts billed and collected before the school year begins are included in unearned revenue.

*Scholarships and Financial Aid:*

Gross tuition and fees reflect the Foundation's normal tuition rates for all students. Scholarships given on the basis of financial need and academic merit are netted against gross tuition and fees. Some dependents of the Foundation's employees receive reduced tuition rates. Revenue under these arrangements is included at the gross amount in tuition and fees while the reduction is included in expenses in the Statements of Activities.

*Donated Assets and Services:*

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports the expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

## Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

*Donated Assets and Services, continued:*

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in the operation of Foundation programs and properties. No amounts for services have been recognized in the Statements of Activities because the criteria for recognition under *Accounting for Contributions Received and Contributions Made* have not been satisfied.

*Expense Allocation:*

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are charged to programs and supporting services on the basis of time and expense analyses. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

*Estimates:*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the present value determination on unconditional promises to give, allowances for doubtful accounts, depreciable lives of property and equipment, and valuation of interest rate swap agreements.

*Income Tax Status:*

The Foundation is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

Management evaluates the Foundation for any uncertain tax positions or unrecognized tax benefits or liabilities that may exist. Management does not believe that any uncertain tax positions or unrecognized tax benefits or liabilities exist for the years ended June 30, 2014 and 2013. The Foundation's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2010.

*Fair Value of Financial Instruments:*

The Financial Accounting Standards Board's (FASB) *Fair Value Measurements* establishes a framework for measuring fair value, and expands disclosures about fair value measurement. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this standard, fair value measurements are disclosed by level within that hierarchy.

**Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

*Fair Value of Financial Instruments, continued:*

The Foundation utilizes a three-tier fair value hierarchy that clarifies fair value as 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.

*Reclassifications:*

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

*Subsequent Events:*

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 20, 2014, the date the financial statements were available to be issued.

**Note 2. Credit Risk**

As of June 30, 2014 and 2013, the Foundation maintained cash balances with several financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures up to $250,000 per institution on all accounts. As of June 30, 2014 and 2013, the Foundation had $1,144,746 and $1,535,811 in these financial institutions that was uninsured.

The majority of investments are held by two investment firms. The Foundation is also subject to concentration of credit risk related to its unconditional promises to give. This risk is limited due to the large number of contributors comprising the Foundation’s contributor base and their dispersion across different geographic areas.

**Note 3. Accounts Receivable, Net**

Accounts receivable primarily consist of tuition and are presented net of an allowance for doubtful accounts of $180,124 and $129,023 for the years ended June 30, 2014 and 2013, respectively.

**Note 4. Unconditional Promises to Give**

Unconditional promises to give at June 30, 2014 and 2013 consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Capital campaign | $ 539,964 | $ 567,945 |
| Capital needs | 380,831 | 349,722 |
| Loyalty fund | - | 3,000 |
| | $ 920,795 | $ 920,667 |
| Receivable in: | | |
| Less than one year | $ 405,179 | $ 400,285 |
| One to five years | 515,616 | 520,382 |
| Total unconditional promises to give | 920,795 | 920,667 |
| Less discounts to net present value | (37,333) | (13,611) |
| Less allowance for uncollectable promises | (35,271) | (35,271) |
| Unconditional promises to give | $ 848,191 | $ 871,785 |

Unconditional promises to give expected to be collected after one year are discounted at a rate of 1.91% and 0.95% as of June 30, 2014 and 2013, respectively.

**Note 5. Investments**

The following table shows the unrealized gains (losses) and fair value of the Foundation's investments, with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category at June 30, 2014 and 2013:

| | 2014 | | |
|---|---|---|---|
| | Cost | Fair Value | Net Unrealized Gain |
| Money funds | $ 407,048 | $ 407,048 | $ - |
| Equity securities | 1,278,822 | 1,671,991 | 393,169 |
| Mutual funds | 6,993,583 | 7,755,943 | 762,360 |
| Cash surrender value of life insurance | 30,639 | 38,996 | 8,357 |
| | $ 8,710,092 | $ 9,873,978 | $ 1,163,886 |

| | 2013 | | |
|---|---|---|---|
| | Cost | Fair Value | Net Unrealized Gain |
| Money funds | $ 114,726 | $ 114,726 | $ - |
| Equity securities | 836,037 | 1,110,251 | 274,214 |
| Mutual funds | 7,411,746 | 7,691,332 | 279,586 |
| Cash surrender value of life insurance | 30,639 | 38,994 | 8,355 |
| | $ 8,393,148 | $ 8,955,303 | $ 562,155 |

**Note 5. Investments, Continued**

Investment return is summarized for the years ended June 30, 2014 and 2013 as follows:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividends | $ 207,205 | $ 198,717 |
| Less investment agents' fees | (11,487) | (6,185) |
| Net realized and unrealized gains (losses) | 654,247 | 379,196 |
| Total | $ 849,965 | $ 571,728 |

**Note 6. Fair Value of Financial Instruments**

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

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

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

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

**Note 6. Fair Value of Financial Instruments, Continued**

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

- *Unconditional promises to give, net:* Valued at original promise to give less an allowance based on prior year's historical experience and management's analysis of specific promises made and discounted for the time value of money based on a management determined rate.
- *Money funds:* Valued at cost which approximates fair value.
- *Equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.
- *Mutual funds:* Valued at the net asset value of units held by the Foundation at year end using closing prices reported in the active market.
- *Cash surrender value of life insurance:* Valued at original cost plus additional premium payments made.
- *Interest rate swap liability:* Valued at expected cash flows over the life of the instrument. Expected cash flows are determined by evaluating transactions with a pricing model using a specific market environment.

Fair values of assets and liabilities measured on a recurring basis are as follows at June 30:

| | 2014 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Unconditional promises to give, net | $ 848,191 | $ - | $ - | $ 848,191 |
| Money funds | $ 407,048 | $ 407,048 | $ - | $ - |
| Equity securities | | | | |
| Financials | 926,702 | 926,702 | - | - |
| Consumer staples | 104,267 | 104,267 | - | - |
| Information technology | 50,002 | 50,002 | - | - |
| Energy | 60,493 | 60,493 | - | - |
| Consumer discretionary | 92,987 | 92,987 | - | - |
| Industrials | 57,156 | 57,156 | - | - |
| Health care | 106,045 | 106,045 | - | - |
| Transportation | 108,294 | 108,294 | - | - |
| Telecommunications | 48,024 | 48,024 | - | - |
| Oil & Gas | 118,021 | 118,021 | - | - |
| Mutual funds: | | | | |
| Balanced | 86,725 | 86,725 | - | - |
| Growth | 124,943 | 124,943 | - | - |
| Index | 2,284,756 | 2,284,756 | - | - |
| International | 126,477 | 126,477 | - | - |
| Bond | 5,133,042 | 5,133,042 | - | - |
| Cash surrender value of life insurance | 38,996 | - | - | 38,996 |
| Total investments | $ 9,873,978 | $ 9,834,982 | $ - | $ 38,996 |
| Interest rate swap liability | $ 305,665 | $ - | $ 305,665 | $ - |

**Note 6. Fair Value of Financial Instruments, Continued**

| | 2013 | | | |
|---|---|---|---|---|
| | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Unconditional promises to give, net | $ 871,785 | $ - | $ - | $ 871,785 |
| Money funds | $ 114,726 | $ 114,726 | $ - | $ - |
| Equity securities | | | | |
| Financials | 789,601 | 789,601 | - | - |
| Consumer staples | 45,258 | 45,258 | - | - |
| Information technology | 10,814 | 10,814 | - | - |
| Energy | 27,238 | 27,238 | - | - |
| Consumer discretionary | 56,563 | 56,563 | - | - |
| Industrials | 32,051 | 32,051 | - | - |
| Health care | 46,558 | 46,558 | - | - |
| Transportation | 43,315 | 43,315 | - | - |
| Telecommunications | 7,532 | 7,532 | - | - |
| Oil & Gas | 51,321 | 51,321 | - | - |
| Mutual funds: | | | | |
| Balanced | 77,738 | 77,738 | - | - |
| Income | 5,363,560 | 5,363,560 | - | - |
| Index | 1,805,310 | 1,805,310 | - | - |
| Bond | 444,724 | 444,724 | - | - |
| Cash surrender value of life insurance | 38,994 | - | - | 38,994 |
| Total investments | $ 8,955,303 | $ 8,916,309 | $ - | $ 38,994 |
| Interest rate swap liability | $ 473,447 | $ - | $ 473,447 | $ - |

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, reconciliation is required for the beginning and ending balances. A reconciliation is required to be shown separately for each major category of assets and liabilities except for derivative assets and liabilities, which may be presented net. The table below presents a reconciliation of beginning and ending asset balances measured at fair value on a recurring basis as Level 3 at June 30, 2014.

| | 2014 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | **Unconditional Promises to Give, net** | **Cash Surrender Value of Life Insurance** |
| Beginning balance | $ 871,785 | $ 38,994 |
| Included in earnings (or changes in net assets) | 465,278 | 2 |
| Collections | (488,872) | - |
| Ending balance | $ 848,191 | $ 38,996 |

**Note 6. Fair Value of Financial Instruments, Continued**

The table below presents a reconciliation of beginning and ending asset balances measured at fair value on a recurring basis as Level 3 at June 30, 2013.

| | 2013 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | Unconditional Promises to Give, net | Cash Surrender Value of Life Insurance |
| Beginning balance | $ 1,105,959 | $ 33,771 |
| Included in earnings (or changes in net assets) | 340,780 | 5,223 |
| Collections | (574,954) | - |
| Ending balance | $ 871,785 | $ 38,994 |

**Note 7. Endowments**

The Foundation's endowments consist of approximately 100 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees as institutional funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ - | $ 380,197 | $ 566,446 | $ 846,643 |
| Board-designated funds | 7,575,249 | - | - | 7,575,249 |
| Total funds | $ 7,575,249 | $ 380,197 | $ 566,446 | $ 8,521,892 |
| **Changes in endowment net assets:** | | | | |
| Endowment net assets, beginning of year | $ 7,048,137 | $ 297,965 | $ 556,446 | $ 7,902,548 |
| Investment return: | | | | |
| Investment income, net | 153,180 | 20,320 | - | 173,500 |
| Net gain (realized and unrealized) | 521,433 | 66,368 | - | 587,801 |
| | 674,613 | 86,688 | - | 761,301 |
| Contributions | 727,527 | 1,709 | 10,000 | 739,236 |
| Restoration of previous donor restricted funding deficiency | 565 | (565) | - | - |
| Board approved withdrawals | (875,593) | (5,600) | - | (881,193) |
| Endowment net assets, end of year | $ 7,575,249 | $ 380,197 | $ 566,446 | $ 8,521,892 |

**Note 7. Endowments, Continued**

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ (565) | $ 297,965 | $ 556,446 | $ 853,846 |
| Board-designated funds | 7,048,702 | - | - | 7,048,702 |
| Total funds | $ 7,048,137 | $ 297,965 | $ 556,446 | $ 7,902,548 |
| **Changes in endowment net assets:** | | | | |
| Endowment net assets, beginning of year | $ 6,611,926 | $ 263,210 | $ 546,446 | $ 7,421,582 |
| Investment return: | | | | |
| Investment income, net | 134,367 | 19,795 | - | 154,162 |
| Net gain (realized and unrealized) | 283,017 | 35,396 | - | 318,413 |
| | 417,384 | 55,191 | - | 472,575 |
| Contributions | 140,630 | 984 | 10,000 | 151,614 |
| Prior year contributions reclassified as board-designated | 623,024 | - | - | 623,024 |
| Restoration of previous donor restricted funding deficiency | 9,920 | (9,920) | - | - |
| Board approved withdrawals | (754,747) | (11,500) | - | (766,247) |
| Endowment net assets, end of year | $ 7,048,137 | $ 297,965 | $ 556,446 | $ 7,902,548 |

**Note 8. Land, Buildings and Equipment**

A summary of land, buildings and equipment, and the related accumulated depreciation at June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 5,477,530 | $ 5,477,530 |
| Buildings | 26,073,511 | 26,073,511 |
| Improvements | 4,858,799 | 4,715,173 |
| Furniture, fixtures and equipment | 2,089,214 | 2,055,670 |
| Vehicles | 165,464 | 165,464 |
| Computer hardware and software | 1,355,391 | 1,324,988 |
| Construction in progress | 3,524,209 | 2,036,236 |
| | 43,544,118 | 41,848,572 |
| Less accumulation depreciation | (11,396,286) | (10,292,008) |
| Total | $ 32,147,832 | $ 31,556,564 |

Depreciation expense totaled $1,104,278 and $1,089,856 for the years ended June 30, 2014 and 2013, respectively.

**Note 9. Long-Term Bond Obligations**

On December 6, 2007, South Carolina Jobs-Economic Development Authority issued Economic Revenue Bonds on behalf of the Foundation. The issuance totaled $20,000,000 in term bonds with a variable interest rate based on the SIFMA weekly municipal swap index, with principal payments due December 1, 2012 to December 1, 2036 in amounts ranging from $480,000 to $1,285,000.

On November 5, 2007, the Foundation entered into an interest rate swap agreement with an effective date of May 1, 2008, to effectively change the Foundation's variable interest rate exposure on notional amounts of $15,000,000 of the bonds to a fixed 3.456% rate. This interest rate swap agreement was amended on August 4, 2011 (see below).

On October 8, 2008, the Foundation entered into another interest rate swap agreement which was amended on November 30, 2009, to effectively change the Foundation's variable interest rate exposure on notional amounts of approximately $5,000,000 of the bonds to a fixed 2.54% rate. This interest rate swap agreement terminates December 1, 2015.

Beginning in fiscal year 2013, the Foundation is required to maintain amounts on deposit with Bank of America as collateral for the satisfaction of these interest rate swaps. The required amount is tied to the fair value of the interest rate swaps and fluctuates as the fair value changes. The balance of this collateral account was $390,000 and $520,000 at June 30, 2014 and 2013, respectively, and is included in restricted cash in the Statements of Financial Position.

On August 4, 2011, the Foundation amended the November 5, 2007 interest rate swap agreement to reduce the notional amount from $15,000,000 to $10,000,000, maintaining an effective rate of 3.456% on this portion of the bonds and a termination date of May 1, 2013. At termination, this swapped portion of the bonds returned to the variable interest rate. Additionally, the Foundation entered into a new interest rate swap agreement with an effective date of August 4, 2011 to reduce the effective interest rate on $5,000,000 of the bonds from 3.456% to 2.34%. This agreement terminates December 1, 2015.

At June 30, 2014 and 2013, the variable rate on the bonds was 0.08% and 0.09%, respectively. The decrease in liability related to the interest rate swap agreements recognized by the Foundation was $167,782 and $457,378 for the years ended June 30, 2014 and 2013, respectively. The estimated fair value of these agreements at June 30, 2014 and 2013 was a liability of $305,665 and $473,447, respectively, which is included in the Foundation's Statements of Financial Position.

The Series 2007 bonds also require an annual letter of credit fee to be paid to the letter of credit provider. Effective November 28, 2012, the direct-pay letter of credit issued by Bank of America was replaced by a direct-pay letter of credit issued by BB&T. This new letter of credit carries a fee of 0.90% per annum on the outstanding bond principal balance as of December 1. Letter of credit fees for the years ending June 30, 2014 and 2013 were $174,401 and $192,482, respectively and are included in depreciation and interest in the expense allocation (see Note 16). As a condition of this transaction, the letter of credit provider requires the Foundation to maintain a sinking fund for payment of bond principal obligations. The balance of this sinking fund was $272,768 and $360,059 at June 30, 2014 and 2013, and is included in restricted cash in the Statements of Financial Position.

Interest expense on bond obligations was $236,956 and $534,284 for the years ended June 30, 2014 and 2013, respectively.

**Note 9. Long-Term Bond Obligations, Continued**

Scheduled principal payments on long-term obligations are as follows for the years ended June 30:

| | |
|---|---|
| 2015 | $ 480,000 |
| 2016 | 505,000 |
| 2017 | 525,000 |
| 2018 | 550,000 |
| 2019 | 575,000 |
| Thereafter | 16,260,000 |
| Total | $ 18,895,000 |

The Foundation has various financial and non-financial covenants it is required to comply with associated with the Series 2007 bonds and the letter of credit.

**Note 10. Restrictions on Net Assets**

Temporarily restricted net assets consisted of the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Scholarships | $ 1,715,145 | $ 1,460,983 |
| Campus improvements | 520,658 | 75,778 |
| Educational programs | 425,128 | 515,860 |
| Professional development | 243,668 | 203,206 |
| Technology | 60,580 | 55,107 |
| Faculty compensation | 155,568 | 134,861 |
| Unconditional promises to give, due in future years | 848,191 | 871,785 |
| | $ 3,968,938 | $ 3,317,580 |

Permanently restricted net assets consisted of the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Scholarships | $ 451,446 | $ 441,446 |
| Faculty compensation | 100,000 | 100,000 |
| Professional development | 15,000 | 15,000 |
| | $ 566,446 | $ 556,446 |

The Board of Trustees designated unrestricted net assets for the following purposes as of June 30:

| | 2014 | 2013 |
|---|---|---|
| Faculty compensation | $ 681,974 | $ 620,367 |
| Professional development | 267,945 | 216,275 |
| Long-term investment | 5,060,792 | 4,822,522 |
| Scholarships | 695,442 | 600,686 |
| Other | 869,096 | 788,852 |
| | $ 7,575,249 | $ 7,048,702 |

**Note 12. Related Parties**

Accounts receivable from employees totaled $35,722 and $32,113 as of June 30, 2014 and 2013, respectively, and are included in accounts receivable on the Statement of Financial Position.

**Note 13. Retirement Plans**

The Foundation sponsors a contributory section 403(b) defined contribution plan. It is a salary reduction plan for all eligible employees. The Foundation contributed 5% of salaries for all employees who elected to participate and had their salaries reduced by 3%. Plan contributions totaled $274,877 and $239,680 for the years ended June 30, 2014 and 2013, respectively.

The Foundation sponsors a section 457(b) deferred compensation plan for key employees. Participating employees may elect their contribution amounts from their salary and are 100% vested at the time of their contribution. The Foundation may make additional contributions at its discretion.

The Board of Trustees has established a non-qualified deferred compensation account under the section 457(b) plan for the benefit of its former Head of School. Contributions to the account were made at the discretion of the Board on an annual basis. The account provided for the accumulation of $100,000 for her retirement, which was effective June 30, 2004. The benefit is included in accrued expenses in the Statements of Financial Position, and as of June 30, 2014 and 2013 was $95,883 and $88,426, respectively. The Board has approved maintaining this money in a separate investment account for the benefit of the former Head of School. She may request distributions from the account at her discretion. The Foundation bears no responsibility related to market value fluctuations in the account. The balance of this account at June 30, 2014 and 2013 was $95,883 and $88,426, respectively. The related investment is included in investments in the Statements of Financial Position.

During the fiscal year ended June 30, 2014, a non-qualified deferred compensation account under the section 457(b) plan for the benefit of the current Head of School was established. This action was ratified by a Special Committee of the Board in November 2014. Contributions to the account are made according to the terms of her employment contract on an annual basis. The benefit is included in accrued expenses in the Statements of Financial position and as of June 30, 2014 was $35,000. Distributions from the account will be made after the Head of School's separation from employment date, in accordance with Plan provisions. The Foundation bears no responsibility related to market value fluctuations in the account. The balance of this account at June 30, 2014 was $35,000. The related investment is included in investments in the Statements of Financial Position.

**Note 14. Advertising**

Advertising costs are expensed as incurred. Advertising expense totaled $56,340 and $54,119 for the years ended June 30, 2014 and 2013, respectively.

**Note 15. Leases**

The Foundation is the lessee of computer equipment under capital leases expiring at various dates through 2015. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense.

These assets are reported in property and equipment at a cost of $645,059 as of June 30, 2014 and 2013 respectively. Accumulated amortization on the computer equipment is $580,722 and $517,170 as of June 30, 2014 and 2013, respectively. Amortization expense of $63,552 and $66,097 has been included with depreciation expense in the years ended June 30, 2014 and 2013, respectively.

Minimum future lease payments under the capital leases are as follows for the years ended June 30:

| | |
|---|---|
| 2015 | $ 12,567 |
| Less: amount representing interest | 822 |
| Present value of net minimum lease payments | $ 11,745 |

The interest rates on the capitalized leases range from 1.6% to 10.03% and are imputed based on the lower of the Foundation's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

**Note 16. Expense Allocation**

Program services include both academic instruction and auxiliary services such as extended day and after school programs. General and administrative expense includes those expenses that are not identifiable with any other specific function but provide for the overall support and direction of the Foundation.

The functional allocation of expenses is as follows for the years ended June 30:

| | 2014 | | | |
|---|---|---|---|---|
| | Programs | General and Administrative | Fund-Raising | Total |
| Personnel | $ 7,076,278 | $ 2,003,306 | $ 158,819 | $ 9,238,403 |
| Facilities | 1,188,256 | 38,584 | 4,425 | 1,231,265 |
| Academic support | 1,153,694 | - | - | 1,153,694 |
| Management and other | - | 823,573 | - | 823,573 |
| Development office | - | - | 53,022 | 53,022 |
| Depreciation, interest and bank fees | 1,495,092 | 48,547 | 5,568 | 1,549,207 |
| | $ 10,913,320 | $ 2,914,010 | $ 221,834 | $ 14,049,164 |

**Note 16. Expense Allocation, Continued**

| | 2013 | | | |
|---|---|---|---|---|
| | Programs | General and Administrative | Fund-Raising | Total |
| Personnel | $ 6,788,219 | $ 1,892,211 | $ 184,776 | $ 8,865,206 |
| Facilities | 977,527 | 41,939 | 3,528 | 1,022,994 |
| Academic support | 1,307,632 | - | - | 1,307,632 |
| Management and other | - | 565,099 | - | 565,099 |
| Development office | - | - | 54,595 | 54,595 |
| Depreciation, interest and bank fees | 1,837,244 | 78,822 | 6,630 | 1,922,696 |
| | $ 10,910,622 | $ 2,578,071 | $ 249,529 | $ 13,738,222 |

The Foundation conducts joint activities that include requests for contributions, as well as program and general and administrative components. Those activities include development office services, special events and solicitations. The costs of conducting those activities have been reported in fund-raising expense.