HAMMOND SCHOOL

FINANCIAL REPORT

JUNE 30, 2014

HAMMOND SCHOOL
INDEX
YEAR ENDED JUNE 30, 2014

DERRICK STUBBS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Hammond School
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Hammond School (School) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hammond School as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Derrick, Stubbs + Stith, LLP

Columbia, South Carolina
October 18, 2014

HAMMOND SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS		**LIABILITIES AND NET ASSETS**	
Current Assets		Current Liabilities	
Cash and cash equivalents	$ 6,013,132	Accounts payable	$ 344,362
Accounts Receivable		Accrued expenses	1,096,052
Tuition less, allowance of $ 288,890	2,414,386	Agency funds	261,376
Other receivables	34,035	Deferred revenue	8,771,087
Prepaid expenses	45,892	**Total current liabilities**	10,472,877
Inventories	24,189		
Total current assets	8,531,634	Long-Term Liabilities	
		Bonds payable	5,000,000
		Total liabilities	15,472,877
Assets Restricted for Special Purposes			
Cash and cash equivalents	257,714	Net Assets	
Investments	4,545,812	Permanently restricted for endowment	409,187
Assets held in trust	28,258		
Total assets restricted for special purposes	4,831,784	Temporarily restricted for endowment	1,291,008
		Unrestricted	
		Investment in property and equipment	12,719,139
Other Long-Term Assets		Board designated for special programs and	
Bond issuance costs, net of amortization	99,896	property and equipment	3,152,979
Note receivable	75,000	Undesignated	(1,787,737)
Property and equipment, net of Accumulated Depreciation of $ 11,164,763	17,719,139	**Total unrestricted**	14,084,381
Total other long-term assets	17,894,035		
		Total net assets	15,784,576
Total assets	$ 31,257,453	**Total liabilities and net assets**	$ 31,257,453

See notes to financial statements.

HAMMOND SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Changes in Unrestricted Assets	
Revenues, gains and other support	
Tuition and fees, net of discounts and financial aid	$ 11,897,750
Private gifts and contributions	1,038,758
Investment income	56,409
Auxiliary enterprises	809,379
Unrealized and realized gains and losses	155,060
Extended care	288,906
Other income	181,953
Total unrestricted revenues	14,428,215
Net assets released from restrictions	(89,482)
Total revenues and other support	14,338,733
Expenses	
Operating expenses	
Instruction	8,222,381
Auxiliary enterprises	1,826,814
Other programmatic	280,493
General and administrative	3,395,161
Total expenses	13,724,849
Increase in unrestricted net assets	613,884
Changes in Temporarily Restricted Net Assets	
Private gifts and contributions	2,550
Investment income	32,239
Unrealized and realized gains and losses	151,425
Net assets released from restrictions	89,482
Increase in temporarily restricted net assets	275,696
Changes in Permanently Restricted Net Assets	
Private gifts and contributions	29,567
Increase in net assets	919,147
Net Assets	
Beginning	14,865,429
Ending	$ 15,784,576

See notes to financial statements.

HAMMOND SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities	
Increase in net assets	$ 919,147
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities	
Depreciation and amortization	892,050
Provision for uncollectible student accounts	35,864
Net realized and unrealized (gain) on investments	(306,485)
(Increase) in accounts and other receivable	(486,710)
Decrease in prepaids and inventory	81,836
Increase in accounts payable and accrued expense	14,204
Increase in agency funds	39,256
Increase in deferred revenue	131,307
Contributions restricted for endowment	(29,567)
Net cash provided by operating activities	1,290,902
Cash Flows from Investing Activities	
Purchases of property and equipment	(313,032)
Net change in assets held in trust	(3,719)
Net (purchases) sales of investments	(619,574)
Net cash (used in) investing activities	(936,325)
Cash Flows from Financing Activities	
Proceeds from contributions restricted for endowment	29,567
Net increase in cash and cash equivalents	384,144
Cash and Cash Equivalents	
Beginning	5,886,702
Ending	6,270,846
Supplemental Disclosures of Cash Flow Information	
Cash payment for interest	$ 34,361

See notes to financial statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of activities: Hammond School (School) is a non-profit corporation organized under the laws of the State of South Carolina on August 6, 1965, for the purpose of providing education from preschool through grade 12. The majority of its students and contributors are from in and around Columbia, South Carolina and the surrounding areas.

Accounting method: The accompanying financial statements are based on the accrual method of accounting reflecting income earned regardless of when received and expenses incurred regardless of when paid.

Basis of presentation: The School adheres to the disclosure and display requirements of ASC 958 Not-For-Profit. ASC 958 establishes standards for external financial reporting by non-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories as follows:

Unrestricted net assets: Net assets that are not subject to donor imposed stipulations. These net assets, including Board designated, are legally unrestricted and can be used in any School activity.

Temporarily restricted net assets: Net assets subject to donor imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

To ensure observance of limitations and restrictions placed on the use of resources available to the School, the accounts of the School are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes.

Support and expenses: Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restricted ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Cash and cash equivalents: The School considers all cash accounts, which are not subject to withdrawal restrictions on penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Fair value of financial instruments: The carrying amount of receivables and accounts payables and accrued expenses approximates fair value due to the short-term maturities of these instruments. The carrying value of the long-term debt approximates fair value because the interest rate used with this instrument fluctuates with the market rate and is at terms currently available to the School.

Allowance for uncollectible receivables and pledges: The School's accounts receivables include student receivable and other receivable. The allowance for uncollectible receivables is based on historical experience and management's assessment of the general financial conditions affecting the School's receivables base. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Investments: Investments other than real estate are valued at fair value with appreciation being recognized and reported in the Statement of Activities in the appropriate classes. Real estate investments are valued at historical cost when purchased or at market value at the date of gift. Unless specific prohibitive clauses are contained in the gift instruments, funds for investment have been combined into one investment pool for each fund. Revenue arising from the ownership or disposition of pooled investments is allocated to the various funds based on the percentage of ownership interest of such fund. Realized and unrealized gains or losses on the sale of investments are determined based on the average cost of the investments.

Inventories: The School reports as inventory textbooks purchased for use by Middle and Lower School students. The textbook inventory is valued at cost adjusted for estimation of usage and obsolescence using the straight-line method over the number of years left to use the books.

Bond issue cost: Loan fees and cost associated with the issuance of the bonds were recognized at cost when incurred. An annual amortization calculated using the straight-line method over twenty years, the term of the bonds, is used to recognize the expense approximating the interest method.

Investment in property and equipment: Buildings, furniture and equipment are capitalized at cost. It is the School's policy to capitalize individual items costing in excess of $ 5,000. Depreciation of assets is recorded over the estimated useful life of the assets. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized.

Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land and improvements	15
Buildings and improvements	10 - 40
Library books	20
Furniture and equipment	5 - 10
Motor vehicles	5

In-kind support: The School records various types of in-kind support including professional services and materials. Contributed professional services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. When in-kind support is received, it is reflected in the accompanying financial statements as in-kind support and offset by like amounts included in expenses. No donated professional services were received during the year.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: The School is exempt from all federal and state income taxes under section 501(c)(3) of the Internal Revenue Code. Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With a few exceptions, the School is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for the years before 2010.

Tuition and fees: Tuition and fee revenue is recognized in the period in which the majority of the services (academic courses or program) are provided. Deferred revenue represents the tuition invoiced by and due to the School in advance of the academic period as evidenced by a non-cancellable enrollment contract as of June 30th.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Retirement plan: The School has a defined contribution retirement plan administered by Teachers Insurance and Annuity Association (TIAA). Employees who have completed at least one year of service are eligible to participate in TIAA. Under this plan, the School contributes an amount equal to five percent of an eligible employee's contractual compensation, provided the participant contributes at least two percent of their compensation to the plan during the year. The School is not liable for any liabilities of the Plan other than to remit the above contributions. Pension expense for the years ending June 30, 2014 was $ 315,413.

Note 2. Investments

A summary of the School's investment portfolio at June 30, 2014 is as follows:

	Cost Value	Market Value
Money market	$ 487,725	$ 487,725
Mutual funds	1,482,067	1,585,830
Common stock	951,002	1,352,674
Certificate of deposits	809,663	816,058
Government securities	202,214	206,469
Other investments	52,056	52,056
Land held for investment	45,000	45,000
Totals	$ 4,029,727	$ 4,545,812

The School has entered various professional service contracts for investment management services from several brokerage firms. Management and the Board monitor the performance of these service providers through comparison with established benchmarks.

The investment yield on endowment investments (income earned on investments as a percentage of average annual total investments at market value) for fiscal year 2014 is 2.17%. The investment yield on endowment investments on a total return concept [income earned plus market appreciation (depreciation)] as a percentage of average annual total investments at market value for fiscal year 2014 is 9.68%. Investment income is reported net of investment expenses for fiscal years 2014 and 2013.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position.

Note 3. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarch that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Note 3. Fair Value Measurements (Continued)

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the School's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
June 30, 2014				
Assets				
Assets held in trust	$ -	$ -	$ 28,258	$ 28,258
Investments				
Marketable securities	4,500,812	-	-	4,500,812
Land	-	-	45,000	45,000
Liabilities				
Bonds payable	-	5,000,000	-	5,000,000
	$ 4,500,812	$ 5,000,000	$ 73,258	$ 9,574,070

Changes in fair value and related gains and losses: The School's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $ 306,485 for the year ending June 30, 2014.

Transfers between levels: The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting periods. We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the net assets available for benefits.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Assets held in Trust	Land held for Sale	Total
Beginning balance - July 1, 2013	$ 24,539	$ 45,000	$ 69,539
Total gains or losses (realized/unrealized) included in changes in net assets	3,719	-	3,719
Ending balance - June 30, 2014	**$ 28,258**	**$ 45,000**	**$ 73,258**
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 3,719	$ -	$ 3,719

Notes to Financial Statements

Note 4. Accounts and Notes Receivables

Tuition accounts consist of tuition and fees related to education and extracurricular activities provided by the School. Tuition insurance is required for each agreement which would cover a significant portion (75%) of the total tuition. The cost of the insurance is paid by the borrower. An allowance for doubtful accounts has been established for those accounts and notes based upon prior losses and an evaluation of current balances and current economic conditions. As of June 30, 2014 the School reported $ 2,703,276 in gross accounts receivable for which $ 288,890 is reserved as the allowance for doubtful accounts.

Other receivables include receivables from auxiliary service operations and employee advances. Management has evaluated the collectability of the receivables through analysis of prior losses, an evaluation of balances owed, and the economic conditions. As of June 30, 2014 the School reported $ 34,035 in gross other receivables with management deeming all collectible thereby determining that no allowance for uncollectible was necessary.

The note receivable in the amount of $ 75,000 is to be forgiven in total as long as the individual remains employed by the School for five years.

Note 5. Assets Held in Trust

The School has established an account with the Central Carolina Community Foundation (CCCF) governed by an Agency Fund Agreement naming the School as the beneficiary of the funds. The agreement provides CCCF with the ability to direct the investment transactions for the account. In the event that the School should cease operations or lose its tax determination status, CCCF has the authority to select a similarly purposed organization to benefit from the funds. All distributions must be approved by the CCCF Board within its payout policies. The School received no distributions from the funds during the year.

The balances as of year-end consisted of the following:

Corpus	$ 18,000
Unrealized gain	10,258
Fair Value	$ 28,258

Note 6. Property and Equipment

Property and equipment at June 30, 2014 consisted of the following:

Land and land improvements	$	3,788,523
Buildings		15,512,256
Building Improvements		5,785,261
Furniture and equipment		3,054,588
Motor vehicles		443,182
Library books		271,505
Construction in progress		28,587
Less: accumulated depreciation		(11,164,763)
Total	$	17,719,139

Depreciation expense was $ 882,967 for the year ended June 30, 2014.

Note 7. Construction in Progress

Construction in progress consists primarily of a putting green and carpeting/flooring. Commitments and costs to date as of June 30, 2014, are as follows:

	Commitments to Date	Costs to Date
Putting green	$ 42,622	$ 21,311
Carpeting/flooring	14,551	7,276
Total	$ 57,173	$ 28,587

Note 8. Agency Funds

Hammond holds funds for certain affiliated organizations and groups. Amounts due to these groups at June 30, 2014 include:

Class trips	$ 100,331
Fall festival	7,096
Student activities	31,614
Other funds	122,335
Total	$ 261,376

Note 9. Note Payable and Line of Credit

On June 24, 2011, Hammond School obtained an Unsecured Revolving Line of Credit from TD Bank, with the availability of $ 3,000,000. As of June 30, 2014, no funds had been drawn down from the Line of Credit. The interest rate is computed from the date of each advance at a floating rate equal to the 30 day LIBOR Rate plus 1.9%. Interest shall be computed on the actual number of days elapsed divided by a 360-day year. The maturity date of this Line of Credit is December 15, 2014.

Per the loan covenants, Hammond School shall maintain a Tangible Net Worth of at least $ 12,500,000 based upon Hammond School's annual financial statements. Hammond School shall maintain a Debt Service Coverage Ratio of at least 1.35 to 1.00 and maintain a "Funded Debt to Tangible Net Worth Ratio" of not more than 2.00 to 1.00. "Funded Debt" means all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long term debt. As of June 30, 2014, Hammond School was in compliance with all covenants.

Note 10. Bonds Payable

In June 2005, Hammond School issued $ 5,000,000 of Variable Rate Demand Purchase Revenue Bonds (Hammond School Project), Series 2005, through Branch Banking and Trust Company and the South Carolina Jobs Economic Development Authority. A Remarketing Agreement with TD Securities, LLC as the Remarketing Agent occurred June 16, 2011.

The Bonds are currently secured by an irrevocable-direct pay letter of credit issued by TD Bank, N.A., as successor by merger to Carolina First Bank, to support the payment of principal of, interest on, and the Purchase Price of the Bonds. The letter of credit is collateralized by the Main Campus (excludes South Campus), has a three year term, and carries an annual Letter of Credit fee of 50 basis points.

While the Bonds bear interest at a weekly rate, the Borrower shall pay to the Remarketing Agent during the term hereof a continuing remarketing and administration fee computed at the annual rate of one-eighth of 1.00% (12.5 basis points) per annum of the aggregated principal amount of the Bonds outstanding from time to time. Such fee shall be payable annually, in advance, commencing on the Initial TD Remarketing Date and on the first day of each June during the term hereof (each such date sometime referred to as a "Fee Payment Date"), based on the outstanding principal amount of the Bonds on each Fee Payment Date. Such fee shall be computed on the basis on the actual number of days elapsed in a year of 365 or 366 days, as the case may be.

Note 10. Bonds Payable (Continued)

Interest expense on bonds totaled $ 34,361 for the year ended June 30, 2014.

The bonds are scheduled to be redeemed in increasing increments starting June 1, 2017 according to the following schedule:

	Principal Redemption Amount
Due on June 1,	
2017	$ 150,000
2018	520,000
2019	545,000
2020	565,000
2021	590,000
2022	615,000
2023	645,000
2024	670,000
2025	700,000
Total	$ 5,000,000

Beginning on June 1, 1016, on the first business day of each month, the School is required to deposit an amount equal to 1/12 of the principal redemption amount due on the following June 1st into a Sinking Fund which is restricted by the Bond covenants for the payment of the required principal redemption. Starting in the year 2017, the balance in the Sinking Fund on May 1st must be equal to all of the principal redemption due on June 1st.

Note 11. Leases

The School leases certain equipment under operating leases expiring from March 2014 through June 2018. Total lease payments were $ 50,142 in 2014. The minimum future payments under the operating leases having terms in excess of one year as of June 30, 2014, are:

2015	$ 60,238
2016	38,574
2017	29,121
2018	13,581
2019	13,581
Total	$ 155,095

Note 12. Concentrations of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash, marketable securities and other investments, accounts receivable and notes. The School places substantially all of its cash and liquid investments with high-quality financial institutions. Cash balances may exceed federally insured limits. The School has not experience any losses on it cash equivalents.

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

Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014, are available for the following programs and projects:

Resources for students and families	$	382,496
Program and student life enrichment		725,909
Campus and facilities		143,969
Faculty excellence		38,634
Total	$	1,291,008

During the year ended June 30, 2014, temporarily restricted net assets were released from restrictions for the following purposes:

Program and student life enrichment	$	11,476
Other transactions		(100,958)
Total released from restrictions	$	(89,482)

Note 14. Permanently Restricted Net Assets

Permanently restricted net assets of $ 409,187 at June 30, 2014 are restricted to investment in perpetuity, the income from which is expendable to support the School's objectives:

Resources for students and families	$	327,362
Program and student life enrichment		8,805
Faculty excellence		55,020
General endowment		18,000
Total	$	409,187

Note 15. Endowments

The School's endowment consists of approximately 12 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Trustees of the School has interpreted the South Carolina Uniform Prudent Management of Institutional Funds Act (SCUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by SCUPMIFA.

Notes to Financial Statements

Note 15. Endowments (Continued)

In accordance with SCUPMIFA, the School 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 School 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 School,
7) The investment policies of the School

Endowment Net Asset Composition by Type of Fund as of June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,291,008	$ 409,187	$ 1,700,195
Board designated quasi endowment funds	-	-	-	-
Total funds	-	1,291,008	409,187	1,700,195
Endowment net assets, beginning of year	-	1,015,312	379,620	1,394,932
Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014				
Investment return				
Net investment income	-	32,239	-	32,239
Net appreciation (realized and unrealized)	-	151,425	-	151,425
Total investment return	-	183,664	-	183,664
Contributions	-	2,550	29,567	32,117
Transfers	-	100,958	-	100,958
Appropriation of endowment assets for expenditures	-	(11,476)	-	(11,476)
Endowment net assets, end of year	$ -	$ 1,291,008	$ 409,187	$ 1,700,195

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SCUPMIFA requires the School to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $ 0 as of June 30, 2014. These deficiencies would result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Return objectives and risk parameters: The School's portfolio return objective is a 7% to 8% total return in order to (1) generate a stable distribution amount averaging between 4% and 5% over time to support the current and future operations of the School; and (2) generate at least 3% annually, net of fees, in excess of that spending amount to preserve and enhance the purchasing power of the endowment. Since the spending policy is based on a total return objective, current income (dividends and interest) is not a specific objective of the endowment.

Note 15. Endowments (Continued)

Strategies employed for achieving objectives and risk parameters: The Board of Trustees' objective is to fund spending through interest, dividends, and capital gains and to leave the inflation-adjusted principal intact. If the expected return reflected in this formula generates too much risk, it may be necessary to reduce expected spending or suspend spending especially in years of low (or negative) portfolio returns.

Spending policy and how the investment objectives relate to spending policy: The purpose of a spending policy is to allow the School to budget the revenue produced by the Endowment funds and to allow the investment manager(s) to develop a long-term investment strategy that will cash flow the amount to be distributed under the spending policy. The Investment Committee of the Endowment Advisory Board, working with the Finance Committee of the Board of Trustees, shall establish a spending policy for the Endowment funds each year to be approved by the Board of Trustees. This spending policy shall be expressed as a percentage of the average quarter-end market value of the endowment assets for the previous twelve quarters.

In establishing the spending policy, which the Board of Trustees expects to average 4% to 5% annually, the following factors set out in South Carolina Uniform's Prudent Management of Institutional Funds Act shall be considered:

- The School anticipates a moratorium on spending for the first three years;
- The duration and preservation of the Endowment funds:
- The School's charitable purposes and the purposes of the Endowment funds;
- General economic condition;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources available to the School; and
- Hammond's Investment Policy Statement

Note 16. Functional Allocation of Expenses

The following schedule displays the expenses incurred during the year ended June 30, 2014 by natural classification within each functional area. The School has four major functional areas of operations:

	Instruction	Auxiliary Enterprises	Other Programmatic	General and Administrative	Total
Salaries	$ 5,408,721	$ 392,196	$ -	$ 1,694,144	$ 7,495,061
Taxes and benefits	1,133,977	82,361	-	355,770	1,572,108
Instructional aids	371,932	-	101,941	-	473,873
Student activities	135,765	-	-	-	135,765
Operational supplies	354,589	362,756	115,325	332,715	1,165,385
Repairs, maintenance and rent	117,140	234,279	-	234,279	585,698
Utilities and telephone	-	213,446	-	213,446	426,892
Professional services	32,511	-	-	91,825	124,336
Auxiliary enterprises	-	450,295	-	-	450,295
Insurance	-	-	8,013	102,451	110,464
Dues, conferences and training	-	-	41,101	76,332	117,433
Interest expense	-	-	-	34,361	34,361
Depreciation and amortization	632,464	56,199	-	203,387	892,050
Other expenses	35,282	35,282	14,113	56,451	141,128
	$ 8,222,381	$ 1,826,814	$ 280,493	$ 3,395,161	$ 13,724,849

Notes to Financial Statements

Note 17. Contingencies

The School is occasionally named in lawsuits arising out of the normal conduct of its operations. In the opinion of the School management, there are no material claims or lawsuits against the School that are not covered by insurance or whose settlement would materially affect the School's financial position.

Note 18. Related Party

Certain Board members of the School are employed by firms that provide goods and services to the School. During the year ended June 30, 2014, the School purchased its health insurance through a company that employed a Board member.

Note 19. Subsequent Events

The School has performed an evaluation of subsequent events through October 18, 2014, which is the date the financial statements were available to be issued. There were no material events that required recognition or additional disclosure in these financial statements.