



CLEMSON UNIVERSITY FOUNDATION
(A Component Unit of Clemson University)

Consolidated Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

CLEMSON UNIVERSITY FOUNDATION

June 30, 2005 and 2004

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KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

Independent Auditors' Report

The Board of Directors
Clemson University Foundation:

We have audited the accompanying consolidated statements of financial position of Clemson University Foundation (the Foundation), a component unit of Clemson University, as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 2003 summarized comparative information has been derived from the Foundation's June 30, 2003 consolidated financial statements and, in our report dated October 2, 2003, we expressed an unqualified opinion on those consolidated financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Clemson University Foundation as of June 30, 2005 and 2004, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 16, 2005

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statements of Financial Position

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 12,841,163	8,575,888
Contributions receivable, net (note 4)	27,479,281	23,630,320
Other receivables	185,448	105,695
Due from related organizations (note 7)	2,133,343	2,249,828
Investments (notes 3 and 9)	218,796,755	198,022,636
Investments held for Clemson University (notes 3 and 7)	60,548,399	55,521,370
Cash surrender value of life insurance (note 10)	1,080,079	1,025,974
Land held for resale	85,777	11,900
Land, buildings and equipment, net (note 5)	9,386,018	9,459,850
Investments held in trust for affiliate (note 3 and 11)	2,251,539	2,084,036
Total assets	<u>\$ 334,787,802</u>	<u>300,687,497</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 407,252	184,988
Due to related organizations (note 7)	142,133	47,264
Accrued liability to Clemson University due to net investment appreciation (note 7)	12,969,467	7,942,438
Note payable to Clemson University (note 7)	47,578,932	47,578,932
Deferred royalty revenue	—	66,667
Actuarial liability of annuities payable (note 9)	7,631,240	7,789,038
Trust funds administered for affiliate (note 11)	2,251,539	2,084,036
Total liabilities	<u>70,980,563</u>	<u>65,693,363</u>
Net assets:		
Unrestricted	20,779,715	17,667,558
Temporarily restricted (note 14)	82,433,254	65,490,856
Permanently restricted (note 14)	160,594,270	151,835,720
Total net assets	<u>263,807,239</u>	<u>234,994,134</u>
Commitments (note 6 and 12)		
Total liabilities and net assets	<u>\$ 334,787,802</u>	<u>300,687,497</u>

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2005

(With comparative information for 2004)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals	
				2005	2004
Revenues, gains, and other support:					
Gifts and bequests	\$ 2,089,260	9,430,075	10,996,279	22,515,614	18,462,518
Income on investments	868,979	2,559,722	17,136	3,445,837	2,510,524
Net realized and unrealized gains on investments	1,096,954	16,248,975	254,032	17,599,961	27,759,438
Program income (note 8)	712,311	509,939	1,189	1,223,439	1,019,902
Other income	69,193	48,718	39,814	157,725	830,035
Change in value of split-interest agreements	31,645	10,307	728,462	770,414	1,809,568
Total revenues and gains	4,868,342	28,807,736	12,036,912	45,712,990	52,391,985
Net assets released from restrictions (note 13)	15,143,700	(11,865,338)	(3,278,362)	—	—
Total revenues, gains and other support	20,012,042	16,942,398	8,758,550	45,712,990	52,391,985
Expenses:					
Program expenses – Alumni operations	1,288,306	—	—	1,288,306	1,412,738
Program expenses – endowments	5,050,625	—	—	5,050,625	5,232,149
Program expenses – operations	4,407,282	—	—	4,407,282	3,967,499
Program expenses – capital projects	4,612,124	—	—	4,612,124	1,162,743
Total program expenses	15,358,337	—	—	15,358,337	11,775,129
General and administrative	776,163	—	—	776,163	725,442
Fundraising	765,385	—	—	765,385	603,257
Total expenses	16,899,885	—	—	16,899,885	13,103,828
Change in net assets	3,112,157	16,942,398	8,758,550	28,813,105	39,288,157
Net assets at beginning of year	17,667,558	65,490,856	151,835,720	234,994,134	195,705,977
Net assets at end of year	\$ 20,779,715	82,433,254	160,594,270	263,807,239	234,994,134

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2004

(With comparative information for 2003)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>	
				<u>2004</u>	<u>2003</u>
Revenues, gains, and other support:					
Gifts and bequests	\$ 3,428,355	2,861,667	12,172,496	18,462,518	13,213,753
Income on investments	577,793	1,932,678	53	2,510,524	2,999,560
Net realized and unrealized gains (losses) on investments	3,120,936	24,423,685	214,817	27,759,438	(1,614,125)
Program income (note 8)	558,568	460,234	1,100	1,019,902	828,120
Other income	622,229	160,003	47,803	830,035	440,764
Change in value of split-interest agreements	38,371	268,167	1,503,030	1,809,568	1,024,248
Total revenues and gains	<u>8,346,252</u>	<u>30,106,434</u>	<u>13,939,299</u>	<u>52,391,985</u>	<u>16,892,320</u>
Net assets released from restrictions (note 13)	10,212,805	(10,212,805)	—	—	—
Total revenues, gains and other support	<u>18,559,057</u>	<u>19,893,629</u>	<u>13,939,299</u>	<u>52,391,985</u>	<u>16,892,320</u>
Expenses:					
Program expenses – Alumni operations	1,412,738	—	—	1,412,738	1,080,595
Program expenses – endowments	5,232,149	—	—	5,232,149	5,510,860
Program expenses – operations	3,967,499	—	—	3,967,499	4,481,046
Program expenses – capital projects	1,162,743	—	—	1,162,743	3,662,594
Total program expenses	11,775,129	—	—	11,775,129	14,735,095
General and administrative	725,442	—	—	725,442	1,316,407
Fundraising	603,257	—	—	603,257	576,635
Total expenses	<u>13,103,828</u>	<u>—</u>	<u>—</u>	<u>13,103,828</u>	<u>16,628,137</u>
Change in net assets	5,455,229	19,893,629	13,939,299	39,288,157	264,183
Net assets at beginning of year	12,212,329	45,597,227	137,896,421	195,705,977	195,441,794
Net assets at end of year	\$ <u>17,667,558</u>	<u>65,490,856</u>	<u>151,835,720</u>	<u>234,994,134</u>	<u>195,705,977</u>

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 28,813,105	39,288,157
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(17,599,961)	(27,759,438)
Investment income on long-term investments	(17,136)	(53)
Change in value of split interest agreements on long-term investments	(728,462)	(1,503,030)
Change in value of split interest agreements on current investments	(41,952)	(306,538)
Loss on fire destruction of condominium	—	9,900
Property and equipment transferred to Clemson University	—	72,926
Depreciation expense	73,832	73,831
Gifts restricted for long-term investment	(10,996,279)	(12,172,496)
Other income – permanently restricted	(39,814)	(48,903)
Program income - permanently restricted	(1,189)	(1,100)
Change in assets and liabilities:		
(Increase) decrease in contributions receivable	(3,848,961)	3,944,415
Increase in other receivables	(79,753)	(19,248)
Decrease (increase) in due from related organizations	116,485	(786,923)
Increase in cash surrender value of life insurance	(54,105)	(72,116)
Increase in assets held in trust for affiliate	(167,503)	(288,768)
Increase in accounts payable and accrued liabilities	5,249,293	5,564,146
Increase in due to related organizations	94,869	21,262
Decrease in deferred royalty revenue	(66,667)	(4,166)
Decrease in annuities payable	(157,798)	(9,219)
Increase in trust funds administered for affiliate	167,503	288,768
Net cash provided by operating activities	<u>715,507</u>	<u>6,291,407</u>
Cash flows from investing activities:		
Proceeds from sale of land held for resale	(73,877)	—
Proceeds from sales of investments	32,756,798	24,687,541
Change in value of split interest agreements on current investments	41,952	306,538
Purchases of investments	(40,957,985)	(39,616,146)
Purchase of property and equipment	—	(72,926)
Net cash used in investing activities	<u>(8,233,112)</u>	<u>(14,694,993)</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	10,996,279	12,172,496
Investment income on long-term investments	17,136	53
Change in value of split interest agreements on long-term investments	728,462	1,503,030
Other income – permanently restricted	39,814	48,903
Program income - permanently restricted	1,189	1,100
Net cash provided by financing activities	<u>11,782,880</u>	<u>13,725,582</u>
Net increase in cash and cash equivalents	4,265,275	5,321,996
Cash and cash equivalents, beginning of year	<u>8,575,888</u>	<u>3,253,892</u>
Cash and cash equivalents, end of year	<u>\$ 12,841,163</u>	<u>8,575,888</u>

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(1) Organization

The Clemson University Foundation (the Foundation), a component unit of Clemson University (the University) as defined by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, is an independent, nonprofit, tax exempt public charity incorporated in South Carolina. The Foundation exists solely to raise, receive, and manage private gifts for the advancement and benefit of the University. The Foundation is considered a component unit of Clemson University, and is discretely presented in the University's financial statements, because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete.

The Foundation is governed by an independent, forty-three member volunteer board of directors, with additional honorary and ex-officio directors, as approved.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

The Foundation's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations. This includes funds that are designated for discretionary use by the Foundation and board designated funds functioning as endowments.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. This includes annuity and life income funds, term endowments, the present value of contributions, and earnings on investments.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. This includes the historical dollar amounts of gifts, the present value of contributions, and earnings required to be added to the corpus as stipulated by the donor.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Income and realized and unrealized net gains on investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of Clemson University Foundation and its wholly-owned subsidiary AMREC, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) Cash and Cash Equivalents

Cash and cash equivalents include interest bearing money market accounts and short-term investments with an original maturity of less than three months.

(e) Investments

Investment securities are generally recorded at fair value. In the case of certain less marketable investments, principally private equity and real estate investments, value is established based on either external events which substantiate a change in value or a reasonable methodology that exists to capture and quantify changes in value. Otherwise such investments are carried at cost. In some instances those changes in value may require use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for the investments existed.

Investment income, net of external and internal management expenses and fees, and gains and losses arising from the sale or other disposition of investments and other noncash assets is distributed to the various endowments using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each endowment owns in the managed investment pool.

Endowment and board-designated funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Under this policy, earnings, not to exceed a specified percentage, could be used to support the intended purposes. Any such earnings used to

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

support the intended purposes are allocated only from those funds which have a market value in excess of historical value.

(f) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition. Cost for donated assets is stated at the appraised fair market value on the date of donation. Buildings and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets.

(g) Land Held for Resale

Land held for resale is recorded at the lower of cost or fair value. Cost of donated land represents the fair value at the date of the donation and is appraised by a certified, independent appraiser. A certified title examination is performed and if appropriate, an environmental survey is obtained. Land held for resale is reviewed every two to three years and reappraised as deemed necessary.

(h) Split Interest Agreements

The Foundation's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which the Foundation serves as trustee and charitable remainder trusts administered by others. Assets held in these trusts where the Foundation serves as trustee are included in investments. Contributions revenues are recognized at the dates the trusts are established, after recording liabilities for the present value of the estimated future payments to be made to donors or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes related to estimated future donor-related payments.

Trust assets administered by others are recorded at fair value as contributions receivable and adjusted annually for changes in market value.

(i) Income Taxes

The Foundation is recognized as an organization exempt from Federal income tax on related income under Section 501(a) of the Internal Revenue Code (the code) as described as an organization in Section 501(c)(3) of the code. Accordingly, only unrelated business income, as defined by Section 513 of the code, is subject to Federal income tax.

(j) Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, other receivables, due to/from related organizations, and accounts payable and accruals approximate fair value because of the terms and relative short maturity of these financial instruments. The carrying values, which are the fair value of investments, are based on values provided by an external investment manager or comparison to quoted market values. The liabilities for trust funds and notes payable are related to investments and investments held in trust for affiliate and, accordingly, are reported at quoted market values. Contributions receivable and actuarial liability of annuities payable are reported at the discounted present value, which approximates fair value.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(k) Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of investments. The exposure to concentrations of credit risk relative to investments is limited due to the Foundation's investment objectives and policies, as adopted by its board of directors. The investment policies prohibit the acquisition of certain securities and require, among other things, that securities be diversified and meet investment grade quality criteria.

(l) Comparative Data

The 2004 statement of activities includes 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, 2003, from which the summarized information was derived.

(m) Use of Estimates

The preparation of the 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Reclassifications

Certain accounts included in the 2004 financial statements have been reclassified to conform to the 2005 presentation. These reclassifications have no effect on change in net assets or total net assets as previously reported.

(3) Investments

A summary of investments at fair value that are presented on the statements of financial position under the investments, investments held for Clemson University and investments held in trust for affiliate as of June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
U.S. Government obligations	\$ 57,978,088	69,440,569
Corporate bonds	2,301,732	1,819,996
U.S. equities	158,531,248	150,940,559
Global equities	36,315,083	14,466,738
Hedge Funds	23,815,493	17,000,000
Private equity	938,588	384,249
Real estate	1,124,960	1,124,960
Other	591,501	450,971
	<u>\$ 281,596,693</u>	<u>255,628,042</u>

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

In 1999, changes in the South Carolina Code of Laws allowed the University board of trustees to loan endowment funds to the Foundation for the purpose of maximizing the investment yield and increasing the available funds for scholarships and other programs. University endowment funds of \$60,548,399 and \$55,521,370 loaned to the Foundation are included in investments in 2005 and 2004, respectively.

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,868,215	10,947,653
One year to five years	17,746,494	10,234,725
Over five years	29,374,055	27,495,568
	<u>49,988,764</u>	<u>48,677,946</u>
Less allowance for uncollectible contributions receivable	(2,948,590)	(2,406,794)
Less unamortized discount (discount rates of 2.27% to 6.30%)	(19,560,893)	(22,640,832)
	<u>\$ 27,479,281</u>	<u>23,630,320</u>

(5) Land, Buildings and Equipment

A summary of land, buildings and equipment at June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 8,971,049	8,971,049
Buildings	1,230,159	1,230,159
Equipment	110,989	110,989
	<u>10,312,197</u>	<u>10,312,197</u>
Less accumulated depreciation	(926,179)	(852,347)
	<u>\$ 9,386,018</u>	<u>9,459,850</u>

Included in land, buildings and equipment at June 30, 2005 and 2004, is land donated to the Foundation which had an appraised value of \$7,145,000 in both years. In 1996, a Conservation Easement was assigned which required the land to remain in its undeveloped state but allowed for the construction, operation and management of a research and educational facility. Accordingly, the subject property was reappraised and the market value is comprised of land of \$575,000 and the Conservation Easement of \$6,570,000.

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Notes to Consolidated Financial Statements

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(6) Leases

The Foundation has entered into operating lease agreements for vehicles and equipment that expire over the next five years. Total rent expense incurred under these agreements was \$30,408 in 2005 and \$24,110 in 2004. Future minimum lease payments under the operating lease agreements are as follows: \$30,516 in 2006, \$29,151 in 2007, \$20,832 in 2008, and \$4,354 in 2009.

(7) Related Party Transactions

At June 30, 2005 and 2004, amounts due to and due from organizations related to the Foundation through their affiliation with the University are as follows:

	<u>2005</u>	<u>2004</u>
Due to:		
IPTAY	\$ 756	1,105
Clemson Advancement Foundation for Design and Building	1,426	2,702
Clemson University	<u>139,951</u>	<u>43,457</u>
	<u>\$ 142,133</u>	<u>47,264</u>
Due from:		
Clemson University Real Estate Foundation, Inc.	\$ 939,048	945,235
Clemson University	449,295	544,593
Clemson University Continuing Education and Conference Complex Corporation	<u>745,000</u>	<u>760,000</u>
	<u>\$ 2,133,343</u>	<u>2,249,828</u>

During 2004, the Foundation purchased and transferred equipment with a net book value of \$72,926, to the University. No transfers were made in 2005.

Individuals working on behalf of the Foundation are employees of and paid by the University. The Foundation reimburses the University for the time University employees spend on Foundation matters. Funds are reimbursed to the University as part of the annual board allocation to the University and are recorded as expenses by the Foundation. The amounts reimbursed for the years ending June 30, 2005 and 2004 was \$244,402, respectively.

In 1999, the Foundation approved a noninterest bearing loan of \$600,000 to the Clemson University Continuing Education and Conference Complex Corporation (the Complex Corporation) for landscaping, drainage, and irrigation improvements to the Walker Golf Course. In 2000, the Foundation approved an additional \$300,000 noninterest bearing loan for enhancements to the entrance and parking of the Complex Corporation. The balance outstanding at June 30, 2005 and 2004 was \$745,000 and \$760,000, respectively. The loans are not due until the Complex Corporation's outstanding bank debt is paid in full.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The University and the Foundation have a memorandum of understanding whereby the University loans certain endowment funds to the Foundation for the purpose of maximizing the investment yield and increasing the funds available for scholarships. These funds are managed by the Foundation according to the same terms and conditions currently observed by the Foundation. The agreement is for a period of ten years and will be reviewed annually and automatically extended each year for an additional twelve month period unless either party provides written notice of objection. Either party may terminate the agreement with 180 days notice. The current agreement expires July 11, 2014. The principal balance outstanding at June 30, 2005 and 2004 was \$47,578,932 and the accrued liability to Clemson University due to net investment appreciation on the principal outstanding was \$12,969,467 and \$7,942,438, respectively.

Funds loaned to the Foundation will be paid back to the University with interest at a rate equal to the total cumulative return (consisting of appreciation and income less any payouts to the University) earned from the investment of such funds by the Foundation. The University is prohibited from requesting a return of the loaned funds if the total cumulative return is negative.

In January 2002, the Foundation authorized a \$600,000 loan to Clemson University to construct an addition to the Clemson Apparel Research building to allow for expansion of Department of Graphics Communication. The loan is for a period of five years and interest is calculated based on the prime rate charged to large banks adjusted semi-annually. In June 2005 the loan was renegotiated. Interest only payments will be made semi-annually and beginning December 2006 payments of \$75,553 will be made until June 2009. The principle balance on the loan at June 30, 2005 and 2004 was \$409,295 and \$544,593 respectively. The interest rate in effect at June 30, 2005 was 6% and will remain constant for the term of the loan.

A \$40,000 gift intended for the Foundation was received by Clemson University and subsequently paid to the Foundation after June 30, 2005.

The Foundation has advanced funds to the Clemson University Real Estate Foundation, Inc. for costs incurred for real estate gifts offered for sale. Additional funds were provided to the Clemson University Real Estate Foundation, Inc. for start up costs associated with the development of the Clemson University International Center for Automotive Research.

(8) Royalty Revenue

In September 1999, the Foundation, on behalf of the Clemson Alumni Association, entered into a five year agreement with MBNA America Bank to provide an affinity credit card to Clemson alumni, students, and friends. Under the terms of the agreement, MBNA America paid \$575,000 and \$800,000 in fiscal years ended June 30, 2005 and 2004, respectively, to the Foundation as an advance against royalties to be earned during the contract. A portion of the funds received each year are payable immediately to the Clemson University athletic department. Accordingly, these amounts are not recognized as revenue on the Foundation's consolidated statements of activities. Royalty revenue is being recognized as earned during the period of the contract. A total of \$396,615 and \$436,064 of royalty revenue was recognized at each of the years ended June 30, 2005 and 2004, respectively, and is included in program income.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(9) Split Interest Agreements

The Foundation has entered into charitable remainder annuity and unitrust agreements whereby assets are made available on the condition that income is paid periodically to designated individuals. Payments of such amounts terminate at a time specified in the agreements. Included in investments at June 30, 2005 and 2004, is \$13,303,904 and \$13,760,132, respectively, of assets held under the agreements and are comprised of U.S. Government obligations, corporate bonds, and U.S. and global equities.

The Foundation has reported in the accompanying consolidated financial statements an actuarial liability of \$6,382,807 at June 30, 2005 and \$6,559,153 at June 30, 2004 which represents the present value of estimated future payments to beneficiaries of the charitable remainder annuities and unitrusts, taking into consideration their life expectancy and discounted at applicable interest rates.

The Foundation has entered into charitable gift annuity agreements whereby donors contribute assets in exchange for the Foundation's promise to pay a fixed amount to a designated individual for a specified period of time. The assets contributed are held as general assets of the Foundation and an actuarial liability which represents the present value of estimated future payments to beneficiaries of charitable gift annuities of \$1,248,433 at June 30, 2005 and \$1,229,885 at June 30, 2004, has been reported in the accompanying consolidated financial statements.

(10) Life Insurance Policies

The Foundation is owner and beneficiary of various life insurance policies on 36 individuals with an aggregate face value of \$4,367,278 at June 30, 2005 and 2004. The cash surrender value at June 30, 2005 and 2004 was \$1,080,079 and \$1,025,974, respectively.

(11) Assets Held in Trust for Affiliate

The Foundation holds and invests assets belonging to the Clemson Advancement Foundation for Design and Building (CAFDB) in a custodial capacity. The funds are invested in an externally managed investment pool by joint agreement with CAFDB management. The total of the funds at June 30, 2005 and 2004 was \$2,251,539 and \$2,084,036, respectively.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

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(12) Commitments

At June 30, 2005, the Foundation has committed \$1,180,000 for certain building projects and programs for the benefit of Clemson University. At June 30, 2005, the Foundation has received \$1,200,000 in pledges from donors towards such commitments and \$611,045 has been received toward these pledges. The following provides the detail of the individual projects. The unreceived portion is included in contributions receivable at June 30, 2005.

	<u>Total project cost</u>	<u>Foundation commitment</u>	<u>Pledges received</u>	<u>Foundation gifts received</u>	<u>Foundation project expenditures</u>
Clemson University Project:					
Packaging science lab	\$ 100,000	100,000	100,000	90,000	100,000
Packaging science equipment	100,000	80,000	100,000	80,150	80,000
Class of '41 studio for professional communications	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>440,895</u>	<u>824,341</u>
Totals	<u>\$ 1,200,000</u>	<u>1,180,000</u>	<u>1,200,000</u>	<u>611,045</u>	<u>1,004,341</u>

The Foundation has guaranteed a loan of \$2.2 million with a financial institution relating to the construction of the Complex Corporation golf course and hotel. The loan is also secured by certain assets and revenues of the Complex Corporation.

Pursuant to the terms of an agreement dated September 9, 1993, the Foundation shall pay on an annual basis any short-fall occurring in the event that the "Golf Course Premises Revenues" of the Complex Corporation are not sufficient to pay the "Operating Expenses (excluding any debt service) and Groundlease base rent and Reserves"; provided, however, the Complex Corporation shall first pay such short-fall out of the "Reserves". No such payments were required in 2005 or 2004.

The Foundation has future commitments of \$7,341,112 under investment fund agreements to periodically advance additional funding for private equity investments at June 30, 2005. These funds may be drawn down at the request of the general partner until June 2008.

The Foundation has agreed to provide certain unrestricted gift funds totaling \$2 million to Clemson University in the event that private gifts designated for an endowed chair are not received by February 2010.

(13) Net Assets Released from Restrictions

Effective July 1, 2004, donors of gifts to 37 endowments with a value of \$3,278,362 released the permanent restrictions on the endowments and allowed the funds to be used for the construction of the Clemson University West Zone. The Foundation board discussed this opportunity for donors in 2003 and acknowledged the importance of the project to the University.

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Donor imposed restrictions expired on permanently and temporarily restricted net assets during the years ended June 30, 2005 and 2004 as follows:

	<u>2005</u>	<u>2004</u>
Purpose restricted contributions for:		
Scholarships, fellowships, and awards	\$ 2,747,266	2,219,000
Professorships and faculty awards	1,189,149	1,323,405
Department and University programs	6,578,894	5,479,961
Facilities and equipment	16,267	27,695
Time restricted contributions for:		
Clemson University capital projects	<u>4,612,124</u>	<u>1,162,744</u>
Total	\$ <u><u>15,143,700</u></u>	\$ <u><u>10,212,805</u></u>

(14) Net Assets

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

	<u>2005</u>	<u>2004</u>
Programs	\$ 24,427,513	23,866,876
Endowment gains and unspent income restricted by donor	39,147,437	25,800,808
Term endowments	18,210,427	14,704,203
Charitable remainder trusts and unitrusts	<u>647,877</u>	<u>1,118,969</u>
	\$ <u><u>82,433,254</u></u>	\$ <u><u>65,490,856</u></u>

These amounts are largely expendable for scholarships, fellowships, professorships, and University programs.

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

	<u>2005</u>	<u>2004</u>
Endowments	\$ 154,321,051	145,753,710
Charitable remainder trusts and unitrusts	<u>6,273,219</u>	<u>6,082,010</u>
	\$ <u><u>160,594,270</u></u>	\$ <u><u>151,835,720</u></u>

The income from these investments in perpetuity is expendable for scholarships, fellowships, professorships, and University programs.

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(15) Risk Management

The Foundation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The risks are managed through the purchase of commercial insurance and self retention of certain risks. The Foundation's affairs are conducted by the employees of Clemson University and exposures to loss resulting from this arrangement are managed by the University through a combination of methods, including participation in various risk pools administered by the State of South Carolina, purchase of commercial insurance and self retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University.