



CLEMSON UNIVERSITY FOUNDATION
(A Component Unit of Clemson University)

Consolidated Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

CLEMSON UNIVERSITY FOUNDATION

June 30, 2006 and 2005

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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, 2006 and 2005, 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 2004 summarized comparative information has been derived from the Foundation's June 30, 2004 financial statements and, in our report dated September 16, 2005, we expressed an unqualified opinion on those 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 also 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Clemson University Foundation as of June 30, 2006 and 2005, and the changes 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

October 27, 2006

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 23,766,945	12,778,717
Contributions receivable, net (note 4)	28,785,884	27,479,281
Other receivables	42,470	185,448
Due from related organizations (note 7)	2,212,047	2,133,343
Investments (notes 3 and 9)	243,889,336	218,796,755
Investments held for Clemson University (notes 3 and 7)	77,371,822	60,548,399
Cash surrender value of life insurance (note 10)	1,091,249	1,080,079
Land held for resale	85,777	85,777
Land, buildings and equipment, net (note 5)	9,358,636	9,386,018
Investments held in trust for affiliate (note 3 and 11)	2,389,171	2,251,539
Other assets	169,541	62,446
Total assets	<u>\$ 389,162,878</u>	<u>334,787,802</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 394,677	407,252
Due to related organizations (note 7)	421,034	142,133
Accrued liability to Clemson University due to net investment appreciation (note 7)	19,945,146	12,969,467
Note payable to Clemson University (note 7)	57,426,676	47,578,932
Deferred revenue	9,735	—
Actuarial liability of annuities payable (note 9)	7,363,029	7,631,240
Trust funds administered for affiliate (note 11)	2,389,171	2,251,539
Total liabilities	<u>87,949,468</u>	<u>70,980,563</u>
Net assets:		
Unrestricted	25,239,126	20,779,715
Temporarily restricted (note 14)	100,629,332	82,433,254
Permanently restricted (note 14)	175,344,952	160,594,270
Total net assets	<u>301,213,410</u>	<u>263,807,239</u>
Commitments (note 6 and 12)		
Total liabilities and net assets	<u>\$ 389,162,878</u>	<u>334,787,802</u>

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2006

(With comparative information for 2005)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>	
				<u>2006</u>	<u>2005</u>
Revenues, gains, and other support:					
Gifts and bequests	\$ 2,624,962	8,855,574	13,889,698	25,370,234	22,515,614
Income on investments (note 3)	1,401,408	3,536,650	33,669	4,971,727	3,445,837
Net realized and unrealized gains on investments (note 3)	1,508,336	16,636,577	247,290	18,392,203	17,599,961
Program income	669,847	630,177	—	1,300,024	1,223,439
Other income	625,234	9,072	41,896	676,202	157,725
Change in value of split-interest agreements	95,376	25,634	538,129	659,139	770,414
Total revenues and gains	<u>6,925,163</u>	<u>29,693,684</u>	<u>14,750,682</u>	<u>51,369,529</u>	<u>45,712,990</u>
Net assets released from restrictions (note 13)	<u>11,497,606</u>	<u>(11,497,606)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>18,422,769</u>	<u>18,196,078</u>	<u>14,750,682</u>	<u>51,369,529</u>	<u>45,712,990</u>
Expenses:					
Program expenses – board allocation to Clemson University	872,280	—	—	872,280	741,858
Program expenses – alumni operations	299,887	—	—	299,887	265,710
Program expenses – endowments	4,930,784	—	—	4,930,784	5,331,363
Program expenses – operations	4,934,930	—	—	4,934,930	4,407,282
Program expenses – capital projects	854,579	—	—	854,579	4,612,124
Total program expenses	<u>11,892,460</u>	<u>—</u>	<u>—</u>	<u>11,892,460</u>	<u>15,358,337</u>
General and administrative	946,121	—	—	946,121	776,163
Fundraising	1,124,777	—	—	1,124,777	765,385
Total expenses	<u>13,963,358</u>	<u>—</u>	<u>—</u>	<u>13,963,358</u>	<u>16,899,885</u>
Change in net assets	4,459,411	18,196,078	14,750,682	37,406,171	28,813,105
Net assets at beginning of year	<u>20,779,715</u>	<u>82,433,254</u>	<u>160,594,270</u>	<u>263,807,239</u>	<u>234,994,134</u>
Net assets at end of year	\$ <u>25,239,126</u>	<u>100,629,332</u>	<u>175,344,952</u>	<u>301,213,410</u>	<u>263,807,239</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	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 – grant to Clemson University	741,858	—	—	741,858	802,766
Program expenses – alumni operations	265,710	—	—	265,710	291,265
Program expenses – endowments	5,331,363	—	—	5,331,363	5,550,856
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 Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 37,406,171	28,813,105
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(18,392,203)	(17,599,961)
Investment income on long-term investments	(33,669)	(17,136)
Change in value of split interest agreements on long-term investments	(538,129)	(728,462)
Property and equipment transferred to Clemson University	22,955	—
Depreciation expense	75,022	73,832
Gifts restricted for long-term investment	(13,889,698)	(10,996,279)
Other income – permanently restricted	(41,896)	(39,814)
Change in assets and liabilities:		
Increase in contributions receivable	(1,306,603)	(3,848,961)
Decrease (increase) in other receivables	142,978	(79,753)
(Increase) decrease in due from related organizations	(78,704)	116,485
Increase in cash surrender value of life insurance	(11,170)	(54,105)
Increase in other assets	(107,095)	(48,248)
Increase in investments held in trust for affiliate	(137,632)	(167,503)
Increase in accounts payable and accrued liabilities	16,810,691	5,249,293
Increase in due to related organizations	278,901	94,869
Increase (decrease) in deferred revenue	9,735	(66,667)
Decrease in actuarial liability of annuities payable	(268,210)	(157,798)
Increase in trust funds administered for affiliate	137,632	167,503
Net cash provided by operating activities	<u>20,079,076</u>	<u>710,400</u>
Cash flows from investing activities:		
Proceeds from sale of land held for resale	—	(73,877)
Proceeds from sales of investments	5,887,198	32,756,798
Purchases of investments	(29,410,843)	(40,957,985)
Purchase of property and equipment	(70,595)	—
Net cash used in investing activities	<u>(23,594,240)</u>	<u>(8,275,064)</u>
Cash flows from financing activities:		
Gifts restricted for long-term investment	13,889,698	10,996,279
Investment income on long-term investments	33,669	17,136
Change in value of split interest agreements on long-term investments	538,129	728,462
Other income – permanently restricted	41,896	39,814
Net cash provided by financing activities	<u>14,503,392</u>	<u>11,781,691</u>
Net increase in cash and cash equivalents	10,988,228	4,217,027
Cash and cash equivalents, beginning of year	<u>12,778,717</u>	<u>8,561,690</u>
Cash and cash equivalents, end of year	\$ <u>23,766,945</u>	<u>12,778,717</u>

See accompanying notes to consolidated financial statements.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(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 receivable, 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 receivable, 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.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

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, 2006 and 2005

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

The Foundation's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that change in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

(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. Contribution 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 are 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 and 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

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

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.

(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 2005 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, 2004, 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 of the Foundation 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 2005 financial statements have been reclassified to conform to the 2006 presentation. These reclassifications have no effect on change in net assets or total net assets as previously reported.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(3) Investments

A summary of investments at fair value that are presented on the statements of financial position as investments, investments held for Clemson University and investments held in trust for affiliate as of June 30, 2006 and 2005 follows:

	2006	2005
U.S. Government obligations	\$ 42,976,829	42,540,682
Corporate bonds	1,275,048	1,817,723
U.S. equities	179,377,742	158,709,852
Global equities	46,412,876	36,261,809
Hedge funds	26,509,180	23,815,493
Private equity	2,928,851	938,588
Real estate	2,117,688	1,124,960
Money market funds	21,809,129	16,019,516
Other	242,986	368,070
	\$ 323,650,329	281,596,693

The Foundation's investment activity for the year ended June 30, 2006 and 2005 follows:

	2006	2005
Net realized gains from sale of investments	\$ 1,251,877	75,745
Increase in unrealized appreciation	17,140,326	17,524,216
Total net gain	18,392,203	17,599,961
Investment income	4,971,727	3,445,837
Total gains and income	23,363,930	21,045,798

Investment management fees totaled \$1,700,951 and \$1,913,373 in 2006 and 2005, respectively. In 2006, \$1,286,079 was internal and \$414,872 external and in 2005, \$1,538,255 was internal and \$375,118 was external.

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 \$77,371,822 and \$60,548,399 loaned to the Foundation are included in investments in 2006 and 2005, respectively.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 7,582,205	2,868,215
One year to five years	13,737,027	17,746,494
Over five years	30,059,500	29,374,055
	<u>51,378,732</u>	<u>49,988,764</u>
Less allowance for uncollectible contributions receivable	(3,016,321)	(2,948,590)
Less unamortized discount (discount rates of 2.27% to 6.30%)	<u>(19,576,527)</u>	<u>(19,560,893)</u>
	<u>\$ 28,785,884</u>	<u>27,479,281</u>

Included with pledges in contributions receivable, is the present value of estimated payments of \$11,693,396 to be received from forty-two irrevocable trusts for which the Foundation is not the trustee.

(5) Land, Buildings and Equipment

A summary of land, buildings and equipment at June 30, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 8,971,049	8,971,049
Buildings	1,277,799	1,230,159
Equipment	110,989	110,989
	<u>10,359,837</u>	<u>10,312,197</u>
Less accumulated depreciation	<u>(1,001,201)</u>	<u>(926,179)</u>
	<u>\$ 9,358,636</u>	<u>9,386,018</u>

Included in land, buildings and equipment at June 30, 2006 and 2005, 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

June 30, 2006 and 2005

(6) Leases

The Foundation has entered into operating lease agreements for vehicles and equipment that expire over the next three years. Total rent expense incurred under these agreements was \$39,240 in 2006 and \$30,408 in 2005. Future minimum lease payments under the operating lease agreements are as follows: \$ 40,338 in 2007, \$32,266 in 2008, and \$11,503 in 2009.

(7) Related Party Transactions

At June 30, 2006 and 2005, amounts due to and due from organizations related to the Foundation through their affiliation with the University are as follows:

	2006	2005
Due to:		
IPTAY	\$ 3,899	756
Clemson Advancement Foundation for Design and Building	1,939	1,426
Clemson University Continuing Education and Conference Complex Corporation	2,369	—
Clemson University	412,827	139,951
	\$ 421,034	142,133
Due from:		
Clemson University Real Estate Foundation, Inc.	\$ 937,200	939,048
Clemson University	554,847	449,295
Clemson University Continuing Education and Conference Complex Corporation	720,000	745,000
	\$ 2,212,047	2,133,343

During 2006, the Foundation purchased and transferred equipment with a net book value of \$22,955 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, 2006 and 2005 were \$344,402 and \$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, 2006 and 2005 was \$720,000 and \$745,000, respectively. The loans are not due until the Complex Corporation's outstanding bank debt is paid in full.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

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, 2015. The principal balance outstanding at June 30, 2006 and 2005 was \$57,426,676 and 47,578,932, respectively and the accrued liability to Clemson University due to net investment appreciation on the principal outstanding was \$19,945,146 and \$12,969,467, respectively. The Foundation charges an annual fee of 0.65% for managing the University endowments. The fee is assessed quarterly and \$144,868 was due to the Foundation at June 30, 2006.

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 the Department of Graphics Communication. The loan is for a period of five years and interest is calculated based on the prime rate charged by 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 principal balance on the loan at June 30, 2006 and 2005 was \$409,285 respectively. The interest rate in effect at June 30, 2005 was 6% and will remain constant for the term of the loan.

At June 30, \$314,000 from MBNA America Bank for athletic royalty payments and additional miscellaneous funds of \$98,827 were due from the Foundation to the University. In addition to the investment management fee of \$144,868 and the outstanding note from the Graphics Communication department of \$409,285, other miscellaneous funds totaling \$694 were due from the University to the Foundation.

(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. The agreement was amended and restated for an additional five year period in June 2005. Under the terms of the agreement, MBNA America paid \$700,000 and \$575,000 in fiscal years ended June 30, 2006 and 2005, 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 \$497,305 and \$396,615 of royalty revenue was recognized during each of the years ended June 30, 2006 and 2005, respectively, and is included in program income.

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(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, 2006 and 2005, is \$13,092,927 and \$13,303,904, 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 \$6,108,842 at June 30, 2006 and \$6,382,807 at June 30, 2005 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 \$1,254,187 at June 30, 2006 and \$1,248,433 at June 30, 2005, 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 33 individuals with an aggregate face value of \$4,067,278 and 4,367,278, at June 30, 2006 and 2005, respectively. The cash surrender value at June 30, 2006 and 2005 was \$1,091,249 and \$1,080,079, respectively.

(11) Investments 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, 2006 and 2005 was \$2,389,171 and \$2,251,539, respectively.

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Notes to Consolidated Financial Statements

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(12) Commitments

At June 30, 2006, the Foundation has committed \$1,000,000 for a building project for the benefit of Clemson University. At June 30, 2006, the Foundation has received \$1,000,000 in pledges from donors towards the commitment and \$449,180 has been received toward these pledges. The following provides the detail of the project. The unreceived portion is included in contributions receivable at June 30, 2006.

	<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:					
Class of '41 studio for professional communications	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>449,180</u>	<u>874,315</u>
Totals	<u>\$ 1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>449,180</u>	<u>874,315</u>

The Foundation has guaranteed a loan of \$2.2 million with a financial institution relating to the construction of the Clemson University Continuing Education and Conference Complex Corporation (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 2006 or 2005.

The Foundation has future commitments of \$18,076,603 under investment fund agreements to periodically advance additional funding for private equity investments at June 30, 2006. These funds may be drawn down at the request of the general partner until June 2008.

The Foundation had 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. The University notified the Foundation in May 2006 the funds would not be needed.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(13) Net Assets Released from Restrictions

Donor imposed restrictions expired on permanently and temporarily restricted net assets during the years ended June 30, 2006 and 2005 as follows:

	2006	2005
Purpose restricted contributions for:		
Scholarships, fellowships, and awards	\$ 2,807,313	2,747,266
Professorships and faculty awards	1,060,877	1,189,149
Department and University programs	6,754,182	6,578,894
Facilities and equipment	20,655	16,267
Time restricted contributions for:		
Clemson University capital projects	854,579	4,612,124
Total	\$ 11,497,606	15,143,700

(14) Net Assets

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

	2006	2005
Programs	\$ 29,262,871	24,427,513
Endowment gains and unspent income restricted by donor	53,514,830	39,147,437
Term endowments	17,177,241	18,210,427
Charitable remainder trusts and unitrusts	674,390	647,877
	\$ 100,629,332	82,433,254

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

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

	2006	2005
Endowments	\$ 169,035,257	154,321,051
Charitable remainder trusts and unitrusts	6,309,695	6,273,219
	\$ 175,344,952	160,594,270

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

CLEMSON UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

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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.