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CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2013

And Report of Independent Auditor

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION
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Report of Independent Auditor

To the Board of Directors of
Clemson University Land Stewardship Foundation
Clemson, South Carolina

We have audited the accompanying consolidated financial statements of Clemson University Land Stewardship Foundation (the "Foundation") which comprise the consolidated statements of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Greenville, South Carolina
September 23, 2013

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013

ASSETS

Cash and cash equivalents	\$ 1,707,762
Receivables	3,898
Real estate investments	27,347,144
Real estate, net	11,915,237
Direct financing lease	14,190,347
Bond issue costs, net	95,992
Development costs	1,335,452
Equipment, net	13,660
Prepaid expense	18,977
Total Assets	\$ 56,628,469

LIABILITIES AND NET ASSETS

Accounts payable	\$ 96,080
Accrued interest payable	11,278
Deposits held for others	30,005
Retainage payable	20,676
Unearned revenue	202,991
Deferred rent revenue	3,224,014
Due to Clemson University Foundation	20,932,472
Notes payable	12,480,612
Total Liabilities	36,998,128

Unrestricted net assets	19,630,341
Total Net Assets	19,630,341
Total Liabilities and Net Assets	\$ 56,628,469

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Revenues, gains, and other support:	
Gifts and contributions at fair value	\$ 9,510,000
Rental revenues	730,971
Federal grant	636,787
Common area fees	366,078
Other	61,582
Total revenues and gains	<u>11,305,418</u>
Program expenses:	
Administrative and other	111,837
One Greenville	130,150
CU-ICAR campus	440,378
Total program expenses	<u>682,365</u>
Interest expense	<u>203,772</u>
Total expenses	<u>886,137</u>
Excess of revenues over expenses	<u>10,419,281</u>
Contributions of certain unrestricted net assets from a related party (Note 8)	9,211,060
Change in unrestricted net assets	19,630,341
Unrestricted net assets at beginning of year	<u>-</u>
Unrestricted net assets at end of year	<u>\$ 19,630,341</u>

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Change in net assets	\$ 19,630,341
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Gifts of real estate at fair value	(9,300,000)
Contributions of certain unrestricted net assets from a related party	(8,591,393)
Depreciation expense	95,629
(Increase) decrease in assets:	
Receivables	528,579
Other assets	(644,855)
Increase (decrease) in liabilities:	
Accounts payable	26,161
Accrued interest payable	(5,732)
Retainage payable	(150,103)
Deferred revenue	161,359
Net cash provided by operating activities	<u>1,749,986</u>
Cash flows from financing activities:	
Proceeds from notes payable	3,039
Direct Financing Lease Income	(1,582)
Cash from Direct Financing Lease	169,852
Principal payments on notes payable	(213,467)
Net cash provided by financing activities	<u>(42,158)</u>
Net increase in cash and cash equivalents	1,707,828
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,707,828</u></u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u><u>\$ 192,494</u></u>

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—Organization

The Clemson University Land Stewardship Foundation (the “Foundation”) was formed in December 2010 to serve the needs of Clemson University (the “University”) in the management, development, and investment of real property and related assets. Beginning December 1, 2012, programmatic and development property held by the Clemson University Real Estate Foundation (“CUREF”) was contributed to the Foundation. The contribution included the wholly-owned subsidiaries of LICAM LLC and LICAR LLC.

Note 2—Summary of significant accounting policies

Basis of Accounting - The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.

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.

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.

Gifts of property and real estate, 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.

Revenues under Federal and nongovernmental grants and contracts are recognized as expenses are incurred for the grant and contract purposes.

Income and net realized and unrealized gains (losses) on investments are reported as unrestricted revenues.

Principles of Consolidation - The consolidated financial statements include the financial statements of the Foundation and its wholly-owned subsidiaries LICAM LLC, LICAR LLC and CULSF One LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 2—Summary of significant accounting policies (continued)

Cash and Cash Equivalents - The Foundation considers all interest bearing money market accounts with an initial maturity of three months or less at the date of purchase to be cash equivalents. Bank balances are insured for \$250,000 through the Federal Depository Insurance Corporation ("FDIC"). During the year, the Foundation from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2013, the Foundation had exceeded these insured amounts.

Receivables - Receivables primarily consist of amounts due from the Federal government and private sources in connection with reimbursement of allowable expenditures made pursuant to the Foundation's grants and contracts. The Foundation's management reviews the outstanding receivables balance and determines the appropriate valuation reserve based on a historical percentage. Accounts are charged off when management believes the account will not be realized. Based on the payment history, management believes that no allowance for possible uncollectible amounts is necessary.

Real Estate Investments - Real estate investments consist of donated properties, land leased to tenants and land held for development. All real estate investments are presented at fair value. Real estate investments are appraised every two to three years and reviewed annually by management.

Donated properties are appraised by a certified, independent appraiser and recorded at fair value at the time of donation. A certified title examination is performed and if appropriate, an environmental survey is obtained.

Land leased to tenants is recorded at fair value at the time of acquisition. The land is leased for a sixty-five year period with option to renew for three ten-year periods.

Land held for development is recorded at fair value at the time of acquisition. The land is being marketed as commercial property for long-term development over an approximate twenty-five year period.

Real Estate - Real estate consists of land, buildings and infrastructure in use or held for later programmatic use. Real estate is recorded at the lower of cost or the appraised fair value on the date of donation.

Buildings and infrastructure are depreciated using the straight-line method over the estimated useful lives of the respective assets ranging from 15 to 25 years.

Development Costs - Development costs include costs related to the master plan, civil engineering and site preparation at the Clemson University International Center for Automotive Research ("CU-ICAR") campus development. These costs have been capitalized and will be amortized over the estimated benefited life when the property is ready for its intended use.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 2—Summary of significant accounting policies (continued)

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") and 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.

The Foundation's policy is to record a liability for any tax position taken that is beneficial to the Foundation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination.

Management believes that there are no such positions as of June 30, 2013 and, accordingly, no liability has been accrued. The open tax years for the Foundation include the years ended June 30, 2011 and 2012.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management of the Foundation to make estimates and assumptions that affect the reported amount 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.

Note 3—Receivables

Receivables reported in the Statements of Net Assets as of June 30, 2013, consisted of \$3,899 of rental receivables from private sources.

Note 4—Fair value measurements

Fair value, as defined under GAAP, is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability. The Foundation has characterized its financial assets and liabilities which are measured at fair value and recorded in the balance sheet, based on a three-level fair value hierarchy based on the inputs to valuation techniques as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on unobservable inputs reflecting the Foundation's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment or estimation by the investment manager.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 4—Fair value measurements (continued)

The following table summarizes the valuation of the Foundation's financial assets measured at fair value as of June 30, 2013. Fair value for Level 2 measures is based on appraisals by licensed third-party appraisers performed every 2-3 years, including an appraisal of all real estate in the current year. There were no changes in the fair value measurement techniques during 2013.

Measurement at fair value on a non-recurring basis at June 30, 2013:

	Level 1	Level 2	Level 3
Real estate held for resale	\$ -	\$ 10,032,921	\$ -
Land held for development	-	17,314,223	-
Total assets measured on a non-recurring basis	\$ -	\$ 27,347,144	\$ -

Note 5—Gifts

Gifts of \$9,510,000 included a gift of real estate with an estimated fair value of \$9,300,000 from a private donor for a portion of the Greenville One Building.

Note 6—Real estate investments

The Clemson University Real Estate Foundation had acquired land in Greenville, South Carolina to be developed into the Clemson University International Center for Automotive Research (CU-ICAR). This property was transferred to the Foundation.

In December 2005, the Clemson University Real Estate Foundation entered into a sixty-five year ground lease for 3.53 acres transferred to the Foundation in 2013. The lease required additional rental payments from the lessee within the initial six years of the lease. The lease terms include an escalation clause at the end of every fifth year based on the Consumer Price Index for All Urban Consumers ("CPI-U") and an option to renew for three ten-year terms. The Foundation has estimated the rent over the initial lease term and recorded deferred rent revenue for the difference between actual rent received and rental revenue recognized on a straight-line basis over the lease term.

Future minimum rental payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013 are:

2014	\$ 75,000
2015	75,000
2016	75,000
2017	75,000
2018	75,000
2019 through year 2070	3,937,500
Total minimum lease payments	\$ 4,312,500

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 6—Real estate investments (continued)

In September, 2009, the Economic Development Administration awarded the Foundation \$3,000,000 for the construction of a \$9,700,000 facility to be located in the CU-ICAR complex in Greenville, SC. The multi-tenant 60,000 square foot structure will provide office and laboratory space for companies developing new technologies in the automotive, mobility, and energy fields, and will serve as an incubator and start-up space for companies developing new innovative automotive technologies. Leases for approximately 97% of the facility have been secured. Construction was completed and the building became operational during the year ended June 30, 2013.

The Foundation entered into leases for space in the Center for Emerging Technology building with multiple tenants. The lease periods range from three to ten years and required additional payments from the lessee for upfit. The payments have been recorded as deferred rent revenue and will be recognized as rent revenue over the lease terms.

Rental revenues were \$862,347 for the year ending June 30, 2013.

Note 7—Real estate, net

Land, buildings and infrastructure located throughout the State have been acquired or donated to the Foundation and are restricted for the use and benefit of University educational programs. These properties were transferred from the Clemson University Real Estate Foundation.

Land	\$ 8,953,000
Buildings and infrastructure	3,435,326
	<u>12,388,326</u>
Accumulated depreciation	473,089
Total	<u>\$ 11,915,237</u>

Included in real estate is 853.53 acres of timberland in Camden, South Carolina that has an appraised value of \$7,750,000. The Foundation has assigned a Conservation Easement to 753.53 acres requiring the land remain in its undeveloped state but allow for construction, operation, and management of facilities for educational purposes. The market value is comprised of land at \$2,193,000 and a Conservation Easement at \$5,557,000.

79.73 acres land, camp facilities and infrastructure known as Pinnacle Falls Camp located in Pickens County, South Carolina was donated to the Foundation and recorded at the appraised fair value. The land has an appraised value of \$917,000. Restrictive covenants require the land to remain largely in its natural state and used for the benefit of University educational programs.

In October 2011, the Clemson University Real Estate Foundation received a gift of real estate known as the Charles K. Cheezem OLLI Education Center at Patrick Square. The property includes a 7,700 square foot facility which provides opportunities for adults to further their knowledge in academic and recreational pursuits through programs operated by volunteers through Clemson University. This property was transferred to the Foundation in 2013.

Depreciation expense was \$95,629 for the year ending June 30, 2013.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 8—Contribution of unrestricted net assets

Contributed unrestricted net assets includes the transfer of net assets and/or net liabilities to the Foundation upon its formation. A series of transactions were executed and are summarized below.

Transfer of LICAR LLC and LICAM LLC net assets and/or net liabilities:

Cash	\$ 619,601
Other current assets	542,412
Property and equipment	28,217,217
Current liabilities	(432,088)
Deferred revenue	(3,062,655)
Due to CUF	(932,472)
Long-term debt	<u>(27,594,079)</u>
Net liabilities transferred from LICAR LLC and LICAM LLC	<u>(2,642,064)</u>

Transfer of certain properties from CUREF:

OLLI/Patrick's Square	1,230,859
Adair property	161,000
Lloyd property	7,750,000
Pinnacle Falls property, net	<u>2,711,265</u>
Net properties transferred from CUREF	<u>11,853,124</u>
Total contributions of certain unrestricted net assets from CUREF	<u>\$ 9,211,060</u>

Note 9—Development costs

Development costs for the comprehensive master plan for the CU-ICAR campus and site preparation costs for Technology Neighborhood I have been capitalized and will be amortized over the estimated benefited life when the property is ready for its intended use.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 10—Notes payable

The notes payable at June 30, 2013 were as follows:

Description	
Non-revolving note payable to a bank Bearing interest at 30 day LIBOR plus 2%, which was 2.389% at June 30, 2013. The note is payable in full July 1, 2015.	\$ 828,357
Non-revolving note payable to a bank Bearing interest at 30 day LIBOR plus 2%, which was 2.389% at June 30, 2013. The note is payable in full July 1, 2016.	177,476
US Department of Agriculture Non-interest bearing note payable with monthly payments of \$6,852 payable in full May 10, 2021.	644,072
Loan payable to a bank Bearing interest at 3.67% for 25 years. This loan is payable in full March 2038.	5,071,866
Loan payable to a bank Bearing interest at 4% for the first 84 months, and will reset each 84 months thereafter at the prevailing fixed rate. The loan is payable in full December 20, 2034.	<div data-bbox="1320 1125 1438 1157">5,758,841</div> <div data-bbox="1252 1167 1438 1199">\$ 12,480,612</div>

The non-revolving note payable with a year-end balance totaling \$828,357 requires interest payments quarterly and an annual payment of \$100,000. A balloon payment for the outstanding balance is due July 1, 2015.

The non-revolving note payable with a year-end balance totaling \$177,476 includes a fixed monthly payment of \$7,000 with varying portions being applied to principal and interest depending on the current interest rate. The loan matures July 1, 2016.

Both notes are secured by a title insured first mortgage on the real estate acquired plus an assignment of all rents, leases, and other revenues derived from the real estate.

A revolving line of credit for \$2,000,000 is available through July 1, 2015. There was no outstanding balance at June 30, 2013.

A non-revolving note payable with a year-end balance totaling \$5,071,866 includes a fixed monthly payment of \$26,162.75. The loan carries a twenty-five year term and matures March 2038.

A bank loan bearing interest at 4.0% with monthly payments of \$33,379 until the loan resets on January 27, 2017. Each successive 84 months, the interest rate will reset to the best fixed rate quoted by the bank on similar loans with similar terms. The loan is secured by a shared first mortgage with the United States Department of Commerce, Economic Development Administration. The loan requires 274 payments and matures in January 2035.

CLEMSON UNIVERSITY LAND STEWARDSHIP FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Note 10—Notes payable (continued)

A non-interest bearing loan with a year-end balance totaling \$644,072 has been awarded from the US Department of Agriculture. The note is payable in fixed monthly payments of \$6,852 which began May 2012 and continue for 108 months. The note is secured with a standby letter of credit which declines as payments on the note are made.

Additionally, CUF has guaranteed any interest and principal payments related to the Center for Emerging Technology building that are not otherwise paid by LICAR LLC.

Aggregate maturities of long-term notes payable are as follows:

2014	\$	560,162
2015		572,278
2016		1,047,914
2017		417,658
2018		429,990
Thereafter		9,452,610
	\$	<u>12,480,612</u>

Note 11—Related party

At June 30, 2013, amounts due to CUF are due in the normal course of business, bear no interest and are as follows:

Due to Clemson University Foundation:

Expenditures associated with development of CU-ICAR campus	\$	932,472
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CU-ICAR land acquisitions		<u>20,000,000</u>
	\$	<u>20,932,472</u>

In December 2007, CUF approved a loan of \$20,000,000 to the Clemson University Real Estate Foundation for land acquisitions and improvements at CU-ICAR. The CUF note is unsecured and carries no interest payment obligation. This note is subordinate to the Foundation's notes payable to a bank and is due on demand only after repayment of that note payable and amendments thereof. This note was transferred to the Foundation.

Note 12—Subsequent events

The Foundation has evaluated subsequent events through September 23, 2013, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.