

# **Spartanburg Regional Healthcare System Foundation**

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**Financial Statements**

**Years Ended September 30, 2016 and 2015**

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## **Independent Auditors' Report**

Board of Trustees  
Spartanburg Regional Healthcare System Foundation  
Spartanburg, South Carolina

We have audited the accompanying financial statements of Spartanburg Regional Healthcare System Foundation (the "Foundation"), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spartanburg Regional Healthcare System Foundation as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Dixon Hughes Goodman LLP*

**February 1, 2017**  
**Charlotte, North Carolina**

**Spartanburg Regional Healthcare System Foundation**  
**Statements of Financial Position**  
**September 30, 2016 and 2015**

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 852,769	\$ 568,446
Pledges receivable, net	5,940,164	5,385,802
Other receivables	210,514	1,453
Investments:		
Unrestricted investments	13,294,127	13,021,369
Investments limited as to use	28,011,109	22,495,142
Total investments	41,305,236	35,516,511
Investment in real estate	332,500	332,500
Total assets	<u>\$ 48,641,183</u>	<u>\$ 41,804,712</u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 257,381	\$ 25,891
Deferred revenue	121,298	266,505
Due to Spartanburg Regional Health Services District, Inc.	-	363,393
Grants payable	32,500	-
Annuity obligations	20,187	23,104
Total liabilities	431,366	678,893
Net assets:		
Unrestricted	18,877,329	18,186,399
Temporarily restricted	28,959,178	22,614,392
Permanently restricted	373,310	325,028
Total net assets	48,209,817	41,125,819
Total liabilities and net assets	<u>\$ 48,641,183</u>	<u>\$ 41,804,712</u>

See accompanying notes.

**Spartanburg Regional Healthcare System Foundation**  
**Statements of Activities**  
**For the Years Ended September 30, 2016 and 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:								
Contributions	\$ 235,575	\$ 8,059,711	\$ 48,282	\$ 8,343,568	\$ 407,668	\$ 6,021,643	\$ 8,858	\$ 6,438,169
Contributions from Spartanburg Regional Healthcare System	1,717,184	-	-	1,717,184	1,576,527	-	-	1,576,527
Net investment income (loss)	1,033,268	1,221,267	-	2,254,535	(909,741)	(872,843)	-	(1,782,584)
Net assets released from restrictions	2,936,192	(2,936,192)	-	-	3,078,406	(3,078,406)	-	-
Total revenues, gains, and other support	5,922,219	6,344,786	48,282	12,315,287	4,152,860	2,070,394	8,858	6,232,112
Expenses:								
Fundraising	1,070,577	-	-	1,070,577	1,001,860	-	-	1,001,860
Administrative	1,060,315	-	-	1,060,315	1,075,583	-	-	1,075,583
Program expenses	3,100,397	-	-	3,100,397	3,310,300	-	-	3,310,300
Total expenses	5,231,289	-	-	5,231,289	5,387,743	-	-	5,387,743
Change in net assets	690,930	6,344,786	48,282	7,083,998	(1,234,883)	2,070,394	8,858	844,369
Net assets, beginning of year	18,186,399	22,614,392	325,028	41,125,819	19,421,282	20,543,998	316,170	40,281,450
Net assets, end of year	\$ 18,877,329	\$ 28,959,178	\$ 373,310	\$ 48,209,817	\$ 18,186,399	\$ 22,614,392	\$ 325,028	\$ 41,125,819

See accompanying notes.

**Spartanburg Regional Healthcare System Foundation**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,083,998	\$ 844,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Present value adjustment on pledges receivable	77,538	208,278
Change in provision of doubtful accounts for pledges receivable	158,903	123,024
Contributions restricted for endowment	(48,282)	(8,858)
Net realized and unrealized (gains) losses on investments	(1,475,923)	2,391,138
Donated securities	(245,986)	-
Net changes in operating assets and liabilities:		
Pledges receivable	(790,803)	(1,796,744)
Other receivables	(209,061)	18,968
Accounts payable	231,490	(17,429)
Deferred revenue	(145,207)	37,710
Due to Spartanburg Regional Health Services District, Inc.	(363,393)	328,473
Grants payable	32,500	(71,132)
Net cash provided by operating activities	<u>4,305,774</u>	<u>2,057,797</u>
Cash flows from investing activities:		
Sales of investments	15,331,632	20,757,049
Purchases of investments	(19,398,448)	(22,417,624)
Net cash used in investing activities	<u>(4,066,816)</u>	<u>(1,660,575)</u>
Cash flows from financing activities:		
Contributions restricted for endowment	48,282	8,858
Payments on annuity obligations	(2,917)	(2,917)
Net cash provided by financing activities	<u>45,365</u>	<u>5,941</u>
Increase in cash and cash equivalents	284,323	403,163
Cash and cash equivalents, beginning of year	<u>568,446</u>	<u>165,283</u>
Cash and cash equivalents, end of year	<u>\$ 852,769</u>	<u>\$ 568,446</u>

See accompanying notes.

## **1. Description of Organization and Summary of Significant Accounting Policies**

### ***Organization***

The Spartanburg Regional Healthcare System Foundation (the "Foundation"), which includes the Cancer, Heart, and Hospice Boards, was established in April 1991 for the purpose of receiving gifts of money and property, to invest such gifts and to apply the income and principal thereof for the benefit of Spartanburg Regional Health Services District, Inc. (the "District") and other healthcare related community organizations. The Foundation issued \$452,702 and \$399,506 in grants to the District, released from temporarily restricted net assets \$2,285,766 and \$2,610,030 to support the District's initiatives, and issued \$136,820 and \$135,960 in grants to healthcare related community organizations for the years ended September 30, 2016 and 2015, respectively.

### ***Basis of Accounting***

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time the liability is incurred.

### ***Basis of Presentation***

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as board designated. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets are resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Foundation to use or expend part or all of the income derived from the donated assets.

### ***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Functional Allocation of Expenses***

Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Cost are allocated between program, administrative and fundraising based on evaluation of the related activities.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

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***Cash and Cash Equivalents***

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

The Foundation maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation ("FDIC"). At times throughout the year, the Foundation may maintain bank account balances in excess of the FDIC insured limit. It is management's opinion that the Foundation is not exposed to any significant credit risk related to cash.

***Promises to Give***

The Foundation records unconditional promises to give as pledges receivable and revenues within the appropriate net assets category. Revenues are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected in future years are recorded at fair value at the date of the promise. The fair value is computed by using the present value of their estimated future cash flows, using a risk-free rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions. An allowance for uncollectible promises to give is determined based on collection experience in prior years and management's analysis of specific promises made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at September 30, 2016 and 2015.

***Investments***

The Foundation's investments are recorded at fair value in the Statements of Financial Position. The Foundation reports investment income and gains and losses on investments and increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. Investments limited as to use include contributions restricted by donors and amounts set aside by the Board, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

***Investment in Real Estate***

Real estate consists of a developed and an undeveloped tract of land located in Spartanburg County, South Carolina that was donated to the Foundation in 1995, without restrictions.

***Deferred Revenue***

The Foundation receives payments for sponsorships and ticket sales for certain events in advance of the event. Income is recognized over the periods to which the event relates.

***Grants Payable***

The Foundation records a liability for grants when they have been approved by the Board of Trustees.

***Annuity Obligations***

The Foundation's split-interest agreements with donors consist of charitable gift annuities. Contribution revenues are recognized net of the present value of estimated payments to be made to donors or other beneficiaries. Liabilities for these future payments are included as annuity obligations. The present values of payments to charitable gift annuities are calculated using discount rates that represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions are recorded as increases or decreases in the respective net asset class in the Statements of Activities.

## **Spartanburg Regional Healthcare System Foundation**

### **Notes to Financial Statements**

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#### ***Contributions***

Non-cash contributions are recorded at fair value on the date of contribution.

#### ***Income Taxes***

The Foundation has been granted exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income tax is recorded in the accompanying financial statements. The Foundation has determined that it does not have any unrecognized tax benefits or obligations as of September 30, 2016.

#### ***New Accounting Pronouncements***

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07"). ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using the net asset value of the investment as a practical expedient within the fair value hierarchy. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value as a practical expedient. Investments for which the practical expedient is not applied will continue to be included in the fair value hierarchy. The requirements of ASU 2015-07 are effective for non-public business entities for fiscal years beginning after December 15, 2016 with early adoption permitted. The Foundation is currently evaluating the impact of adopting the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ("ASU 2016-14"). The provisions of ASU 2016-14 are intended to simplify and improve the presentation of net assets, as well as information regarding liquidity, financial performance and cash flows. The most significant changes in the new standard include:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three.
- Enhances disclosures for self-imposed limits on the use of resources without donor-imposed restrictions and the composition of net assets with donor restrictions.
- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Requires qualitative disclosures on how a not-for-profit manages its available liquid resources.
- Requires quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date.
- Allows for a choice between the direct and indirect method of reporting operating cash flows; presentation of the indirect reconciliation is no longer required if using the direct method.

This guidance will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. The Foundation is currently evaluating the impact of adopting the new standard on its financial statements.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

**2. Pledges Receivable**

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledge payments scheduled to be received after one year are discounted at approximately 4%. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Unconditional promises to give include the following at September 30, 2016 and 2015:

	<b>2016</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due in one year or less	\$ 30,238	\$ 4,573,477	\$ 264	\$ 4,603,979
Due in one to five years	23,364	2,381,303	-	2,404,667
Due in more than five years	725	3,996	-	4,721
	<u>54,327</u>	<u>6,958,776</u>	<u>264</u>	<u>7,013,367</u>
Less discount	(4,019)	(573,383)	-	(577,402)
Less allowance for doubtful accounts	(8,319)	(487,450)	(32)	(495,801)
	<u>\$ 41,989</u>	<u>\$ 5,897,943</u>	<u>\$ 232</u>	<u>\$ 5,940,164</u>

  

	<b>2015</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due in one year or less	\$ 37,355	\$ 2,374,521	\$ 394	\$ 2,412,270
Due in one to five years	30,167	3,736,520	-	3,766,687
Due in more than five years	7,990	35,617	-	43,607
	<u>75,512</u>	<u>6,146,658</u>	<u>394</u>	<u>6,222,564</u>
Less discount	(6,386)	(493,478)	-	(499,864)
Less allowance for doubtful accounts	(9,061)	(327,837)	-	(336,898)
	<u>\$ 60,065</u>	<u>\$ 5,325,343</u>	<u>\$ 394</u>	<u>\$ 5,385,802</u>

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

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**3. Investments**

Investments consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments limited as to use:		
By Board for endowment	\$ 1,087,235	\$ 1,022,276
By Board for program	105,757	105,757
By Board for capital expansion	4,211,428	4,000,000
Restricted by donors	<u>22,606,689</u>	<u>17,367,109</u>
	28,011,109	22,495,142
Unrestricted investments	<u>13,294,127</u>	<u>13,021,369</u>
	<u>\$ 41,305,236</u>	<u>\$ 35,516,511</u>
Cash and cash equivalents	\$ 1,682,960	\$ 971,162
Equity securities including mutual funds and exchange traded funds	18,825,873	20,066,540
Fixed income	12,499,114	6,198,198
Marketable alternative funds	4,389,506	2,320,891
Alternative investments	<u>3,907,783</u>	<u>5,959,720</u>
	<u>\$ 41,305,236</u>	<u>\$ 35,516,511</u>

The Foundation has adopted investment policies and monitors the allocation of investments between types of investments.

Investment income as of September 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 901,604	\$ 718,556
Net realized and unrealized gains (losses)	1,475,923	(2,391,138)
Investment fees	<u>(122,992)</u>	<u>(110,002)</u>
	<u>\$ 2,254,535</u>	<u>\$ (1,782,584)</u>

**4. Fair Value Disclosures**

Fair value as defined under generally accepted accounting principles 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. Generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

## **Spartanburg Regional Healthcare System Foundation**

### **Notes to Financial Statements**

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Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

***Equity securities, mutual funds and exchange traded funds:***

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. The resulting fair value estimate is a level 1 measure. Exchange traded funds and mutual funds are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and the resulting fair value estimate is a level 1 measure.

***Fixed income funds and bonds:***

Fixed income funds are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and the resulting fair value estimate is a level 1 measure. Investments in U.S. Treasury bonds, corporate agency bonds and structure notes do not trade in active markets on the measurement date. Therefore, these investments are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer. The resulting fair value estimate is a level 2 measure.

***Marketable alternative funds:***

Marketable alternative funds are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and the resulting fair value estimate is a level 1 measure.

***Alternative investments:***

The recorded market price for alternative investments is at the fund's NAV estimated by the individual investment manager of the fund taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent arm's-length transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, the underlying investments held by the fund and limited marketability of the portfolio. The fair value in such investments is subject to review by the Foundation and independent annual financial statement audits of these investments. The resulting fair value estimates for these alternative investments are level 3.

For level 3 assets, the Foundation's management in consultation with its investment committee and a third-party investment advisory firm, determines the fair value measurement valuation policies and procedures. At least annually, management and the investment committee determine whether the current valuation techniques used in the fair value measurements are still appropriate and evaluate and adjust unobservable inputs used in the fair value measurements based on current market conditions and third-party information. There were no changes in the valuation techniques during 2016 and 2015.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level within the fair value hierarchy the Foundation's assets accounted for at fair value on a recurring basis as of September 30, 2016 and 2015:

	Fair value at September 30, 2016	Fair value measurements at September 30, 2016 using:		
		Quoted prices in active markets for identical assets (Level 1 inputs)	Significant other observable inputs (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investments:				
Equity securities mutual funds and exchange traded funds:				
U.S. large cap equity	\$ 7,509,357	\$ 7,509,357	\$ -	\$ -
U.S. mid cap equity	2,250,935	2,250,935	-	-
U.S. small cap equity	397,310	397,310	-	-
Europe, Asia and Far East equity	3,038,480	3,038,480	-	-
European large cap equity	1,446,716	1,446,716	-	-
Japanese large cap equity	687,117	687,117	-	-
Asia ex-Japan Equity	1,578,360	1,578,360	-	-
Emerging markets equity	1,917,598	1,917,598	-	-
	<u>18,825,873</u>	<u>18,825,873</u>	<u>-</u>	<u>-</u>
Fixed income:				
U.S. fixed income and fixed income funds	12,047,320	8,194,067	3,853,253	-
Corporate bonds	451,794	-	451,794	-
	<u>12,499,114</u>	<u>8,194,067</u>	<u>4,305,047</u>	<u>-</u>
Marketable alternative funds:				
Real estate and infrastructure	2,790,411	2,790,411	-	-
Hard assets	548,544	548,544	-	-
Hedge funds	1,050,551	1,050,551	-	-
	<u>4,389,506</u>	<u>4,389,506</u>	<u>-</u>	<u>-</u>
Alternative instruments	3,907,783	-	-	3,907,783
	<u>\$ 39,622,276</u>	<u>\$ 31,409,446</u>	<u>\$ 4,305,047</u>	<u>\$ 3,907,783</u>

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

	Fair value at September 30, 2015	Fair value measurements at September 30, 2015 using:		
		Quoted prices in active markets for identical assets (Level 1 inputs)	Significant other observable inputs (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investments:				
Equity securities mutual funds and exchange traded funds:				
U.S. large cap equity	\$ 6,828,034	\$ 6,828,034	\$ -	\$ -
U.S. mid cap equity	2,472,651	2,472,651	-	-
U.S. small cap equity	334,750	334,750	-	-
Europe, Asia and Far East equity	3,813,758	3,813,758	-	-
European large cap equity	1,935,351	1,935,351	-	-
Japanese large cap equity	675,084	675,084	-	-
Asia ex-Japan Equity	1,870,074	1,870,074	-	-
Emerging markets equity	2,136,838	2,136,838	-	-
	<u>20,066,540</u>	<u>20,066,540</u>	<u>-</u>	<u>-</u>
Fixed income:				
U.S. fixed income funds	6,198,198	6,198,198	-	-
	<u>6,198,198</u>	<u>6,198,198</u>	<u>-</u>	<u>-</u>
Marketable alternative funds:				
Real estate and infrastructure	1,797,772	1,797,772	-	-
Hard assets	178,242	178,242	-	-
Hedge funds	344,877	344,877	-	-
	<u>2,320,891</u>	<u>2,320,891</u>	<u>-</u>	<u>-</u>
Alternative instruments	5,959,720	-	-	5,959,720
	<u>\$ 34,545,349</u>	<u>\$ 28,585,629</u>	<u>\$ -</u>	<u>\$ 5,959,720</u>

Investments, described in Note 3, are held at fair value and included in the table above except cash and cash equivalents totaling \$1,682,960 and \$971,162 at September 30, 2016 and 2015, respectively, which are held by the investment manager for investment.

The following is a description of the alternative investments held by the Foundation:

The Foundation has an alternative investment in a private equity partnership of \$644,585 and \$669,214 as of September 30, 2016 and 2015, respectively. The Foundation has committed a total of \$1,000,000 and has unfunded commitments as of September 30, 2016 and 2015 of \$111,292 and \$144,522, respectively. This partnership invests in twenty-four private equity partnerships whose objectives are to achieve diversification within the private equity asset classes (including, without limitation, investments relating to buy-outs, buy-ins, build ups, recapitalizations, consolidations and other acquisition transactions, investments that provide capital for business growth or fundamental business change, investments in financially or operationally troubled companies, investments involving other corporate finance transactions and venture capital investments).

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

The partnership will terminate upon the earlier of 15 years from the date the Partnership commenced or upon termination of the investments in the underlying partnerships.

The Foundation has an alternative investment in a multi-strategy hedge fund of \$2,776,768 and \$5,232,754 as of September 30, 2016 and 2015, respectively. The fund's investment objective is to generate consistent capital appreciation over the long term, with relatively low volatility and low correlation with traditional and fixed income markets. The fund has no committed amounts and redemption of shares can, at the fund manager's discretion, be accepted quarterly at the fund's NAV.

The Foundation has an alternative investment in a private investment fund of \$142,975 and \$57,750 as of September 30, 2016 and 2015. The fund's investment objective is to construct a portfolio of investments diversified by sector, county, and deal type, which collectively capture the mid-market growth opportunities in Latin America. The Foundation has committed a total of \$750,000 and has unfunded commitments as of September 30, 2016 and 2015 of \$596,455 and \$692,250, respectively.

The Foundation has an alternative investment in a private investment fund of \$343,455 as of September 30, 2016. The fund's investment objective is to achieve attractive risk-adjusted returns by investing globally across a diverse set of corporate and direct real estate assets. The Foundation has committed a total of \$500,000 and has unfunded commitments as of September 30, 2016 of \$193,007.

As of September 2016, the Foundation had made a \$500,000 commitment to a newly formed alternative investment fund. As of September 30, 2016, there have been no capital contributions to this fund.

The following table illustrates the activity of level 3 assets measured at fair value on a recurring basis for the years ended September 30, 2016 and 2015:

	Alternative Investment in Private Equity Partnership	Alternative Investment in Multi-Strategy Hedge Fund	Alternative Investment in Private Investment Fund	Alternative Investment in Private Investment Fund	Total
Fair value at September 30, 2014	\$ 714,980	\$ 5,972,755	\$ -	\$ -	\$ 6,687,735
Purchases	33,26	136,229	57,750	-	227,242
Sales/distributions	(133,264)	(754,790)	-	-	(888,054)
Unrealized gains (losses)	54,235	(121,438)	-	-	(67,203)
Fair value at September 30, 2015	\$ 669,214	\$ 5,232,756	\$ 57,750	\$ -	\$ 5,959,720
Purchases	-	100,000	95,795	306,993	502,788
Sales/distributions	(58,000)	(2,000,000)	-	(13,490)	(2,071,490)
Unrealized gains (losses)	33,371	(555,990)	(10,570)	49,954	(483,235)
Fair value at September 30, 2016	\$ 644,585	\$ 2,776,766	\$ 142,975	\$ 343,457	\$ 3,907,783

Unrealized gains and losses for each year are allocated between temporarily restricted change in net assets and unrestricted change in net assets based on the ratio of temporarily restricted and permanently restricted net assets and unrestricted net assets to total net assets at the end of each reporting period. There were no transfers into or out of level 3 during the years ended September 30, 2016 and 2015. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

**5. Restrictions on Net Assets**

At September 30, unrestricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Board restricted endowment for Cancer Chairs Fund	\$ 1,087,235	\$ 1,022,276
Board designated for Joe R. Utley Heart Resource Center	105,757	105,757
Board designated for Gibbs Cancer Center at Pelham	4,211,428	4,000,000
Unrestricted net assets	<u>13,472,909</u>	<u>13,058,366</u>
	<u>\$ 18,877,329</u>	<u>\$ 18,186,399</u>

At September 30, temporarily restricted net assets and permanently restricted net assets consist of the following:

	<u>2016</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Cancer designated funds	\$ 22,526,948	\$ -	\$ 22,526,948
Heart services funds	1,452,670	27,073	1,479,743
Hospice funds	1,167,231	-	1,167,231
Community health funds	1,602,326	-	1,602,326
Healing arts fund	557,959	-	557,959
Education funds	660,325	346,237	1,006,562
Children's funds	403,838	-	403,838
Women's services funds	226,546	-	226,546
Facility improvement funds	361,335	-	361,335
	<u>\$ 28,959,178</u>	<u>\$ 373,310</u>	<u>\$ 29,332,488</u>

	<u>2015</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Cancer designated funds	\$ 16,997,398	\$ -	\$ 16,997,398
Heart services funds	1,278,624	26,983	1,305,607
Hospice funds	999,582	-	999,582
Community health funds	1,348,286	-	1,348,286
Healing arts fund	526,953	-	526,953
Education funds	607,521	298,045	905,566
Children's funds	322,239	-	322,239
Women's services funds	209,316	-	209,316
Facility improvement funds	324,473	-	324,473
	<u>\$ 22,614,392</u>	<u>\$ 325,028</u>	<u>\$ 22,939,420</u>

**6. Endowment Funds**

The Foundation's endowment funds consist of ten individual donor-restricted funds established for a variety of purposes, which are classified as permanently restricted and funds designated by the Board of Trustees to function as an endowment for the support of the Cancer Chairs Fund. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## **Spartanburg Regional Healthcare System Foundation Notes to Financial Statements**

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### ***Interpretation of Relevant Law***

Management has interpreted South Carolina's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction in the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) The investment policies of the Foundation.

### ***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2016 and 2015.

### ***Return Objectives and Risk Parameters***

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that allow for growth of the corpus while minimizing the fluctuations in the value of the portfolio to meet the payout obligations as approved by the Board of Trustees.

### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### ***Spending Policy and How the Investment Objectives Relate to the Spending Policy***

The Foundation policy is to appropriate funds as needed and requested by the District. Amounts appropriated each year depend on District requests for the funds based on the donor intended purposes in accordance with the Foundation's mission. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at the rate of inflation annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

Endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 47,367	\$ 373,310	\$ 420,677
Board designated endowment funds	<u>1,087,235</u>	<u>-</u>	<u>-</u>	<u>1,087,235</u>
Total funds	<u>\$ 1,087,235</u>	<u>\$ 47,367</u>	<u>\$ 373,310</u>	<u>\$ 1,507,912</u>

Changes in endowment net assets by type of fund for the year ended September 30, 2016 are as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2015	\$ 1,022,276	\$ 24,212	\$ 325,028	\$ 1,371,516
Investment return:				
Investment income	21,195	9,302	-	30,497
Net appreciation	<u>43,764</u>	<u>22,170</u>	<u>-</u>	<u>65,934</u>
Total investment return	64,959	31,472	-	96,431
Appropriation of endowment assets for expenditure	-	(18,816)	-	(18,816)
Contributions	<u>-</u>	<u>10,499</u>	<u>48,282</u>	<u>58,781</u>
Endowment net assets, September 30, 2016	<u>\$ 1,087,235</u>	<u>\$ 47,367</u>	<u>\$ 373,310</u>	<u>\$ 1,507,912</u>

Endowment net asset composition by type of fund as of September 30, 2015 is as follows:

	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 24,212	\$ 325,028	\$ 349,240
Board designated endowment funds	<u>1,022,276</u>	<u>-</u>	<u>-</u>	<u>1,022,276</u>
Total funds	<u>\$ 1,022,276</u>	<u>\$ 24,212</u>	<u>\$ 325,028</u>	<u>\$ 1,371,516</u>

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

Changes in endowment net assets by type of fund for the year ended September 30, 2015 are as follows:

	<u>2015</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, September 30, 2014	\$ 1,075,233	\$ 46,662	\$ 316,170	\$ 1,438,065
Investment return:				
Investment income	17,523	5,967	-	23,490
Net depreciation	<u>(70,480)</u>	<u>(23,431)</u>	<u>-</u>	<u>(93,911)</u>
Total investment return	(52,957)	(17,464)	-	(70,421)
Appropriation of endowment assets for expenditure	-	(4,986)	-	(4,986)
Contributions	<u>-</u>	<u>-</u>	<u>8,858</u>	<u>8,858</u>
Endowment net assets, September 30, 2015	<u>\$ 1,022,276</u>	<u>\$ 24,212</u>	<u>\$ 325,028</u>	<u>\$ 1,371,516</u>

**7. Related Party Transactions**

The District pays substantially all the operating expenses on behalf of the Foundation. The District paid \$1,616,260 and \$1,505,469 in 2016 and 2015, respectively, on behalf of the Foundation, which has been recorded in the financial statements as a contribution. In addition, the District provides office space to the Foundation. The District has estimated the fair value of the office space to be approximately \$101,000 and \$71,000 for the years ended September 30, 2016 and 2015, respectively, which has been recorded in the financial statements as a contribution.

The Foundation released from temporarily restricted net assets \$2,285,766 and \$2,610,030 to support the District's initiatives in 2016 and 2015, respectively. Included in liabilities on the Statements of Financial Position as of September 30, 2016 and 2015, are amounts due to the District of \$-0- and \$363,393, respectively. In addition, the Foundation issues grants to the District with \$452,702 and \$399,506 granted during 2016 and 2015, respectively. Included in grants payable is \$32,500 and \$-0- due to the District at September 30, 2016 and 2015, respectively.

The Foundation has a long-term pledge receivable from the District with a balance net of discount of \$957,946 and \$1,875,712 as of September 30, 2016 and 2015. As of September 30, 2016 and 2015 the Foundation had receivables from the District for payroll and other operating expenses of \$210,514 and \$1,453 respectively.

**8. Executive Liability Insurance**

The Foundation is not currently involved in any material litigation related to executive liability claims. Management believes if any claims occur in the future, they will be settled within the limits of coverage, which is on claims-made basis, with insurance limits of \$1,000,000 per claim and \$3,000,000 in aggregate. The Foundation's executive liability insurance is a claims-made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

**Spartanburg Regional Healthcare System Foundation**  
**Notes to Financial Statements**

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**9. Concentrations**

During the year, approximately 48% of total contribution revenues were received from three donors. Approximately 28% of total pledges receivable is due from these donors.

**10. Subsequent Events**

The Foundation evaluated the effect subsequent events would have on the financial statements through February 1, 2017, which is the date the financial statements were available to be issued.