

Coastal Educational Foundation, Inc.

Report on Financial Statements

For the years ended June 30, 2018 and 2017

Coastal Educational Foundation, Inc.

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Independent Auditor's Report

The Board of Directors
Coastal Educational Foundation, Inc.
Conway, South Carolina

We have audited the accompanying financial statements of Coastal Educational Foundation, Inc. (the "Foundation") which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 Coastal Educational Foundation, Inc. as of June 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Charleston, South Carolina
September 24, 2018

Coastal Educational Foundation, Inc.

Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 565,550	\$ 416,091
Accounts and pledges receivable, net	4,829,267	3,592,255
Investments	38,911,724	35,274,817
Real estate held for investment	288,000	78,000
Cash value of life insurance	47,749	44,524
Prepaid expenses	27,790	26,525
Property and equipment, net	4,839,153	4,954,006
Total assets	<u>\$ 49,509,233</u>	<u>\$ 44,386,218</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable - related party	\$ 1,115,290	\$ 420,134
Accounts payable	17,698	36,023
Accrued expenses	700,000	600,000
Deferred revenue	28,333	28,333
Total liabilities	<u>1,861,321</u>	<u>1,084,490</u>
Net assets		
Unrestricted	7,215,257	6,702,599
Temporarily restricted	11,377,873	10,621,445
Permanently restricted		
Permanent endowments	28,554,782	25,477,684
Land required to be permanently used in programs	500,000	500,000
Total net assets	<u>47,647,912</u>	<u>43,301,728</u>
Total liabilities and net assets	<u>\$ 49,509,233</u>	<u>\$ 44,386,218</u>

See Notes to Financial Statements

Coastal Educational Foundation, Inc.**Statement of Activities****For the year ended June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains (losses), and other support				
Contributions	\$ 487,572	\$ 886,477	\$ 3,460,575	\$ 4,834,624
Endowed and other investment income:				
Interest income	664	-	-	664
Net appreciation in fair value of investments	576,594	2,242,903	249,116	3,068,613
Change in cash value of life insurance	738	2,487	-	3,225
Lease income	438,000	-	-	438,000
Royalty income	-	40,679	-	40,679
Fundraising income	-	265,448	-	265,448
Gain on land donation	356,105	-	-	356,105
Loss on disposal of real estate held for investment	-	-	-	-
Miscellaneous income	13,025	7,732	-	20,757
Net assets released from restrictions	3,321,891	(2,551,052)	(770,839)	-
Total revenues, gains (losses), and other support	<u>5,194,589</u>	<u>894,674</u>	<u>2,938,852</u>	<u>9,028,115</u>
Expenses				
Program services:				
Scholarships	592,714	-	-	592,714
University support	1,930,441	-	-	1,930,441
Facilities development and physical plant	21,508	-	-	21,508
College of Education	33,233	-	-	33,233
College of Humanities	150,443	-	-	150,443
College of Science	149,745	-	-	149,745
College of Business	329,385	-	-	329,385
University College	1,487	-	-	1,487
General and administrative	565,770	-	-	565,770
Bad debt expense	2,940	-	-	2,940
Write off of CAF receivable	770,000	-	-	770,000
Fundraising expenses	134,265	-	-	134,265
Total expenses	<u>4,681,931</u>	<u>-</u>	<u>-</u>	<u>4,681,931</u>
Increase in net assets	512,658	894,674	2,938,852	4,346,184
Net assets, beginning of year	6,702,599	10,621,445	25,977,684	43,301,728
Transfers	-	(138,246)	138,246	-
Net assets, end of year	<u>\$ 7,215,257</u>	<u>\$ 11,377,873</u>	<u>\$ 29,054,782</u>	<u>\$ 47,647,912</u>

See Notes to Financial Statements

Coastal Educational Foundation, Inc.**Statement of Activities****For the year ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains (losses), and other support				
Contributions	\$ 538,009	\$ 950,395	\$ 3,062,989	\$ 4,551,393
Endowed and other investment income				
Interest income	441	-	-	441
Net appreciation in fair value of investments	707,309	2,726,072	493,457	3,926,838
Impairment loss	(1,025,000)	-	-	(1,025,000)
Change in cash value of life insurance	940	2,526	-	3,466
Lease income	379,667	-	-	379,667
Royalty income	-	41,816	-	41,816
Fundraising income	-	165,058	-	165,058
Loss on disposal of real estate held for investment	-	(56,766)	-	(56,766)
Miscellaneous income	-	33,796	-	33,796
Net assets released from restrictions	1,954,201	(1,938,159)	(16,042)	-
Total revenues, gains (losses), and other support	<u>2,555,567</u>	<u>1,924,738</u>	<u>3,540,404</u>	<u>8,020,709</u>
Expenses				
Program services:				
Scholarships	505,700	-	-	505,700
University support	836,871	-	-	836,871
Facilities development and physical plant	23,424	-	-	23,424
College of Education	59,996	-	-	59,996
College of Humanities	153,270	-	-	153,270
College of Science	146,808	-	-	146,808
College of Business	444,686	-	-	444,686
University College	1,067	-	-	1,067
General and administrative	572,123	-	-	572,123
Bad debt expense	23,641	-	-	23,641
Fundraising expenses	123,897	-	-	123,897
Total expenses	<u>2,891,483</u>	<u>-</u>	<u>-</u>	<u>2,891,483</u>
Change in net assets	(335,916)	1,924,738	3,540,404	5,129,226
Net assets, beginning of year	7,051,173	8,611,842	22,509,487	38,172,502
Transfers	(12,658)	84,865	(72,207)	-
Net assets, end of year	<u>\$ 6,702,599</u>	<u>\$ 10,621,445</u>	<u>\$ 25,977,684</u>	<u>\$ 43,301,728</u>

See Notes to Financial Statements

Coastal Educational Foundation, Inc.**Statements of Cash Flows****For the years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operations		
Change in net assets	\$ 4,346,184	\$ 5,129,226
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	19,381	19,381
Net appreciation in fair value of investments	(2,944,324)	(3,926,838)
Change in allowance for accounts and pledges receivable	(45,826)	13,824
Change in discount on pledges receivable	37,429	56,461
Impairment loss	-	1,025,000
Donation of land to CCU	359,900	-
Gain on land donation	(356,105)	-
Loss on disposal of real estate held for investment	2,000	56,766
Changes in operating assets and liabilities:		
Accounts and pledges receivable	(1,228,615)	(160,628)
Cash value of life insurance	(3,225)	(3,466)
Prepaid expense	(1,265)	(7,775)
Other assets	-	1,000
Accounts payable - related party	695,156	(61,543)
Accounts payable	(18,325)	190
Accrued expenses	100,000	99,674
Net cash provided by operating activities	<u>962,365</u>	<u>2,241,272</u>
Investing activities		
Purchases of investments	(693,629)	(3,422,439)
Purchases of property and equipment	(178,323)	(211,872)
Purchase of real estate held for investment	-	(60,000)
Proceeds from sale of real estate held for investment	58,000	23,001
Proceeds from sales of investments	1,046	1,470,604
Net cash used for investing activities	<u>(812,906)</u>	<u>(2,200,706)</u>
Financing activities		
Principal payments on notes payable	-	(15,385)
Net cash used for financing activities	<u>-</u>	<u>(15,385)</u>
Net increase in cash and cash equivalents	149,459	25,181
Cash and cash equivalents, beginning of year	416,091	390,910
Cash and cash equivalents, end of year	<u>\$ 565,550</u>	<u>\$ 416,091</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 565</u>
Supplemental disclosure of noncash investing and financing transactions		
Reclassification of real estate held for investment from property and equipment	\$ 270,000	\$ -
Donation of land to CCU	<u>\$ 359,900</u>	<u>\$ -</u>

See Notes to Financial Statements

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies

Description and purpose of the Foundation:

The Coastal Educational Foundation, Inc. (the "Foundation") is a non-profit organization which was organized and chartered in the State of South Carolina on October 19, 1954, for the purpose of soliciting, receiving, managing and distributing gifts in support of Coastal Carolina University (the "University"). The Foundation's support comes primarily through alumni, individuals, and local business donor contributions. Although the University does not control the timing or amount of support from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to supporting the activities of the University. Because these restricted resources held by the Foundation are for the benefit of the University, the Foundation is considered a component unit of the University and is included in the University's financial statements.

Basis of accounting:

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles, and accordingly, reflects all significant receivables, payables, revenues and support when earned and expenditures when they are incurred.

Basis of presentation:

Under applicable accounting standards, the Foundation is required to report information regarding its net assets according to three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired, as well as earnings on unrestricted or temporarily restricted assets, whose earnings are not subject to restrictions.

Temporarily restricted net assets - represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Temporarily restricted net assets are reclassified to unrestricted as their time and/or purpose requirements are met. Earnings from temporarily restricted net assets are unrestricted unless specifically restricted by the donor.

Permanently restricted net assets - represent resources whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Earnings from permanently restricted net assets may be for an unrestricted purpose, but are normally restricted in accordance with a donor imposed stipulation.

Cash and cash equivalents:

For purposes of reporting cash flows, the Foundation considers cash and short term investments purchased with an original maturity of 90 days or less to be cash equivalents, except for cash held in the investments portfolio which is included with investments on the Statements of Financial Position.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Contributions and pledges:

Contributions are recognized as unrestricted net assets when payments received from the donor have no restrictions or stipulated purpose. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire or are satisfied within the fiscal year in which received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets.

Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are estimated by discounting the future cash flows based on the applicable federal rate of return. The allowance for uncollectible pledges is based on historical experience and other circumstances which may affect the ability of the donor to meet their obligation.

Unconditional pledges with payments due in future years are recorded as revenue in the current year. Conditional pledges are recognized as revenue in the period in which the conditional restrictions expire.

Investments:

Investments in marketable equity securities with readily determinable fair market values, and all debt securities, are carried at fair market value. Cash balances held in investment accounts are classified as investments on the Statements of Financial Position. Investment income is considered unrestricted unless the donors have specified otherwise. Unrealized gains and losses are netted with realized gains and losses in the accompanying Statements of Activities. Donated investments are valued at fair market value at the date of donation.

Investments in non-publicly traded closely held companies with no readily determinable market value are carried on the books at their established fair value at the date of donation or distribution to the Foundation, except for certain liquidating distributions which reduce the value of the investment and certain events which trigger a valuation from which fair value can be derived.

Property and equipment:

Real estate and other property and equipment are recorded at cost at the date of purchase or fair value at the date of donation to the Foundation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets ranging from 10 to 40 years. Restrictions on donated assets and gifts for the purchase of assets expire when the asset is placed in service unless the donor instructs otherwise.

Income taxes:

The Foundation is exempt from federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes, continued:

The Foundation is not aware of any material uncertain tax positions at June 30, 2018 or 2017. Interest and penalties associated with unrecognized tax benefits are classified as income taxes when incurred. The Foundation did not recognize any interest or penalties during 2018 or 2017. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years before 2015.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently issued pronouncements:

The Financial Accounting Standards Board on August 18, 2016, published Accounting Standards update (“ASU”) No. 2016-14, Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization’s liquidity and an analysis of expenses by nature and function. The update, which aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources, goes into effect for fiscal years beginning after December 31, 2017. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the statements of financial position. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their statements of financial position as lease liabilities for lease payments and right-of-use assets representing the lessee’s rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance in ASU 2014-09 will be effective for the Foundation for reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued pronouncements, continued:

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Foundation's net assets or changes in net assets.

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 24, 2018, the date the financial statements were available to be issued.

Note 2. Cash and Concentrations of Credit Risks

As of June 30, 2018 and 2017, the Federal Deposit Insurance Corporation ("FDIC") insured accounts up to \$250,000 in aggregate per institution. From time to time, cash balances may exceed FDIC limits. The Foundation may become an unsecured creditor of the bank to the extent the market value of the Foundation's security interest in the collateral falls below the amount of funds invested. The Foundation does not believe it is subject to any unusual risk with respect to these accounts, as all are with high quality institutions.

Note 3. Conditional Promises and Indications to Give

At June 30, 2018 and 2017, the Foundation had conditional promises to give and indications of intentions to give aggregating approximately \$12,583,000 and \$7,355,000, respectively, which are not recognized in the financial statements. These potential contributions consist primarily of conditional pledges, bequests and life insurance policies which, if received, would generate unrestricted and restricted funds for specific purposes stipulated by the donor, including scholarships and the funding of a University chair.

Note 4. Accounts and Pledges Receivable, Net

At June 30, 2018 and 2017, the Foundation had gross accounts and pledges receivable totaling \$5,104,152 and \$3,875,536, respectively. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows discounted at the applicable federal interest rate in effect for the month of the gift (ranging from .60% to 5%) for the appropriate promised payment schedule. The allowance for uncollectible pledges is based on historical experience and other circumstances which may affect the ability of the donor to meet their obligation. Net accounts and pledges receivable are summarized as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Accounts receivable - CCU	\$ 48,958	\$ 45,957
Pledges receivable less than one year	1,414,247	1,266,276
Pledges receivable one to five years	3,228,946	1,800,303
Pledges receivable in more than five years	<u>412,000</u>	<u>763,000</u>
Total accounts and pledges receivable	5,104,151	3,875,536
Less: Unamortized discounts	(254,157)	(216,728)
Allowance for uncollectible pledges	<u>(20,727)</u>	<u>(66,553)</u>
Accounts and pledges receivable, net	<u>\$ 4,829,267</u>	<u>\$ 3,592,255</u>

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 5. Investments

As of June 30, 2018 and 2017, investments consist of privately managed funds and closely held investments. Investments as shown on the Statements of Financial Position at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Fixed income mutual fund	\$ 11,970,224	\$ 11,354,687
Equities	23,586,609	12,027,954
Long/short equity hedge fund	1,425,816	1,308,992
International equity mutual funds	-	8,848,984
Short term cash investment	-	500,000
Total privately managed funds	<u>36,982,649</u>	<u>34,040,617</u>
Closely held investments		
Common stock	1,929,075	1,234,200
Real estate held for investment	<u>288,000</u>	<u>78,000</u>
Total investments	<u>\$ 39,199,724</u>	<u>\$ 35,352,817</u>

The Foundation can hold and intends to hold investments in order to handle market fluctuations.

Note 6. Fair Value Measurements

The Foundation is required to present its financial instruments using a framework that measures fair value under accounting principles generally accepted in the United States of America. Fair value is defined as 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. This statement requires fair value measurements be classified and disclosed in one of the following three categories (i.e., the fair value hierarchy):

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

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

The following is a description of the valuation methodologies used for the Foundation's assets measured at fair value at June 30, 2018 and 2017:

Equities - Valued at the closing price reported on the active market on which the individual securities are traded.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 6. Fair Value Measurements, Continued

Hedge funds - Valued at NAV based on the latest unaudited financial statements or latest estimated valuations prepared by the Funds.

Closely held stock - Investments in non-publicly traded closely held companies with no readily determinable market value are carried on the books at their established fair value at the date of donation or distribution to the Foundation, except for certain liquidating distributions which reduce the value of the investment and certain events which trigger a valuation from which fair value can be derived.

Fixed income mutual funds – Valued at the closing price reported on the active market on which the funds are traded.

Real estate held for investment - The Real Estate Land Use Committee of the Foundation's Board (the "Committee") monitors the value of real estate held for investment and considers the best course of action for disposal. The Committee has members knowledgeable about real estate in the area and considers, among other things, comparable property, the overall real estate market and the best use of the property. When considered necessary, the Committee obtains appraisals on its real estate investments.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value as of June 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Fixed income mutual fund	\$ 11,970,224	\$ -	\$ -	\$ 11,970,224
Equities	23,586,609	-	-	23,586,609
Long/short equity hedge fund	-	-	1,425,816	1,425,816
Closely held stock	-	-	1,929,075	1,929,075
Real estate held for investment	-	-	288,000	288,000
Total investments	<u>\$ 35,556,833</u>	<u>\$ -</u>	<u>\$ 3,642,891</u>	<u>\$ 39,199,724</u>

	2017			
	Level 1	Level 2	Level 3	Total
Fixed income mutual fund	\$ 11,354,687	\$ -	\$ -	\$ 11,354,687
Equities	12,027,954	-	-	12,027,954
International equity mutual funds	8,848,984	-	-	8,848,984
Short term cash investment	500,000	-	-	500,000
Long/short equity hedge fund	-	-	1,308,992	1,308,992
Closely held stock	-	-	1,234,200	1,234,200
Real estate held for investment	-	-	78,000	78,000
Total investments	<u>\$ 32,731,625</u>	<u>\$ -</u>	<u>\$ 2,621,192</u>	<u>\$ 35,352,817</u>

Donor imposed restrictions limit the use of proceeds from the disposition of real estate held for investment to funding of scholarships, developing a mentoring program, and the ongoing maintenance of Waties Island.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 6. Fair Value Measurements, Continued

The tables below set forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended June 30, 2018 and 2017:

The net gains for the period attributable to the unrealized gains relating to assets still held at June 30, 2018: \$ 283,699

	<u>Long/short equity hedge fund</u>	<u>Closely held stock</u>	<u>Real-estate held for investment</u>
Balance, beginning of year	\$ 1,308,992	\$ 1,234,200	\$ 78,000
Sale of investments	-	-	(60,000)
Purchase of investments	-	528,000	270,000
Market appreciation (depreciation)	<u>116,824</u>	<u>166,875</u>	-
Balance, end of year	<u>\$ 1,425,816</u>	<u>\$ 1,929,075</u>	<u>\$ 288,000</u>

The net gains for the period attributable to the unrealized gains relating to assets still held at June 30, 2017: \$ 606,735

	<u>US large cap equity funds</u>	<u>US small cap equity funds</u>	<u>International equity funds</u>	<u>Emerging markets equity funds</u>	<u>Long/short equity hedge fund</u>	<u>Event driven hedge fund</u>	<u>Public real estate fund</u>	<u>Closely held stock</u>	<u>Real estate held for investment</u>
Balance, beginning of year	\$ 3,864,738	\$ 1,481,838	\$ 2,437,920	\$ 1,255,479	\$ 1,178,215	\$ 877,730	\$ 1,039,459	\$ 906,950	\$ 97,767
Sale of investments	(3,874,506)	(1,525,578)	(2,535,612)	(1,287,698)	-	(826,461)	(1,056,017)	-	(79,767)
Purchase of investments	-	-	-	-	-	-	-	-	60,000
Market appreciation (depreciation)	<u>9,768</u>	<u>43,740</u>	<u>97,692</u>	<u>32,219</u>	<u>130,777</u>	<u>(51,269)</u>	<u>16,558</u>	<u>327,250</u>	-
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,308,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,234,200</u>	<u>\$ 78,000</u>

The following table sets forth a summary of the Foundation's investments reported at NAV as a practical expedient to estimate fair value as of June 30, 2018 and 2017:

<u>Investment</u>	<u>2018</u>			
	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Long/short equity hedge fund (a)	<u>\$ 1,425,816</u>	<u>\$ -</u>	Quarterly	60 days
<u>Investment</u>	<u>2017</u>			
	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Long/short equity hedge fund (a)	<u>\$ 1,308,992</u>	<u>\$ -</u>	Quarterly	60 days

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 6. Fair Value Measurements, Continued

- (a) The investment objective of this hedge fund is to seek attractive returns over the long-term relative to broad market indices through an investment in Hitchwood Capital Fund Ltd., a fund with a diversified portfolio of equities and equity related securities in the following sectors: consumer, technology, media and telecom, financials, business services, industrials, transportation, healthcare services, utilities, materials and energy.

Note 7. Property and Equipment, Net

Property and equipment at June 30, 2018 and 2017 consisted of the following property used in campus operation for the benefit of Coastal Carolina University:

	<u>2018</u>	<u>2017</u>
Land - campus property	\$ 4,122,742	\$ 4,396,537
Buildings	626,667	626,667
Furniture and fixtures	15,161	15,161
Land improvements	<u>205,808</u>	<u>27,485</u>
	4,970,378	5,065,850
Less: accumulated depreciation	<u>(131,225)</u>	<u>(111,844)</u>
	<u>\$ 4,839,153</u>	<u>\$ 4,954,006</u>

Depreciation expense for each of the years ended June 30, 2018 and 2017 was \$19,381. A portion of land included in campus property known as Waties Island with a carrying value of \$500,000 is required to be held in its natural state for use in marine and scientific studies. During the year ended June 30, 2017, an impairment loss of \$1,025,000 was recognized on a piece of land owned by the Foundation.

Note 8. Endowments

The Foundation's endowments consist of 205 individual funds established for a variety of purposes. The endowments include permanent endowments and term endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 8. Endowments, Continued

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

Deficits in unrestricted net assets, if any, represent amounts by which the fair value of certain donor-restricted endowment funds were below the amount to be retained permanently.

Funds with deficiencies and transfers - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SCUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018 or 2017.

Transfers to and from other funds represent reclassifications between restrictions and/or transfers into or out of endowment funds for amounts that were recorded as contributions and expenses in a prior period.

Return objectives and risk parameters – The purpose of the endowment is to support the current and future operations of the University. In pursuit of this objective, the endowment should be invested to achieve growth in value over time in order to preserve and enhance its purchasing power, thereby protecting the endowment against inflation. The absolute objective of the endowment is to seek an average total annual return that exceeds the spending rate plus inflation as measured by the Consumer Price Index. This objective shall be measured over annualized rolling 5-year and 10-year periods. The intent of this objective is to preserve, over time, the principal value of the endowment as measured in real, inflation-adjusted terms. The relative objective of the endowment is to equal or exceed the average return of appropriate capital market indices weighted by the asset allocation target percentages over rolling 3-year and 5-year periods. The comparative performance objective of the endowment is to equal or exceed the average return of a universe of similarly sized endowments.

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 8. Endowments, Continued

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 which places emphasis on equity-based and debt-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the 12 quarters ending with the calendar year prior to the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy plus inflation will not normally exceed the total return from investment. 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.

Endowment activity for the years ended June 30, 2018 and 2017 is as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ -	\$ 5,936,279	\$ 25,477,684	\$ 31,413,963
Investment income	-	89,760	-	89,760
Increase in market value	-	2,158,838	249,116	2,407,954
Contributions	-	10,103	3,460,575	3,470,678
Paid/released from restriction	-	(1,397,804)	(770,839)	(2,168,643)
Transfers to other funds	-	(229,010)	138,246	(90,764)
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 6,568,166</u>	<u>\$ 28,554,782</u>	<u>\$ 35,122,948</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ -	\$ 4,190,396	\$ 22,009,487	\$ 26,199,883
Fundraising proceeds	-	-	1,101	1,101
Investment income	-	99,410	-	99,410
Increase in market value	-	2,559,933	493,457	3,053,390
Contributions	-	11,500	3,061,888	3,073,388
Bad debt losses	-	-	(16,042)	(16,042)
Paid/released from restriction	-	(822,231)	-	(822,231)
Transfers to other funds	-	(102,729)	(72,207)	(174,936)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 5,936,279</u>	<u>\$ 25,477,684</u>	<u>\$ 31,413,963</u>

Coastal Educational Foundation, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note 9. Related Party Transactions

The Coastal Carolina University Philanthropy and Administration Offices provide certain support such as use of software, accounting, fundraising and general administration for the benefit of the Foundation. Donated software, office and storage space and administrative support during the fiscal years 2018 and 2017 totaled \$480,354 and \$509,342, respectively. These amounts have been included in contribution revenue and general and administrative expense in the Statements of Activities.

The Foundation provides the use of certain campus property for the benefit of the University. Additionally, the Foundation provided \$3,208,956 and \$2,171,822, respectively, in program service support to the University. Included in the support provided, the Foundation donated 2.87 acres of land to the University to be utilized in campus expansion during the year ended June 30, 2018. This land had a fair market value at the date of contribution of \$359,900 and is included in "University support" in the Statements of Activities.

The Foundation leases to the University various parcels of land. Annual lease income for these leases totaled \$438,000 and \$379,667 for the years ended June 30, 2018 and 2017, respectively, and is included in lease income in the Statements of Activities. Under terms of the leases, the University has cancellation clauses allowing termination with 30 days notice.

At June 30, 2018 and 2017, the Foundation had accounts payable to the University for program service support totaling \$1,115,290 and \$420,134 respectively. At June 30, 2018 and 2017, the Foundation had accounts receivable from the University of \$48,958 and \$45,957, respectively. These amounts have been included in accounts and pledges receivable, net in the Statements of Financial Position.

Note 10. Temporarily Restricted Net Assets

At June 30, 2018 and 2017, the Foundation had temporarily restricted net assets available for the following purposes:

	<u>2018</u>	<u>2017</u>
Endowed scholarships	\$ 2,685,442	\$ 2,261,866
Endowed programs	3,882,724	3,674,413
Annual scholarships	300,258	318,536
Annual programs	3,058,191	2,832,722
Other	<u>1,451,258</u>	<u>1,533,908</u>
Total temporarily restricted net assets	<u>\$ 11,377,873</u>	<u>\$ 10,621,445</u>