

COASTAL CAROLINA UNIVERSITY

CONWAY, SOUTH CAROLINA

JUNE 30, 2001

State of South Carolina



Office of the State Auditor

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November 28, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Coastal Carolina University
Conway, South Carolina

This report on the audit of the financial statements of Coastal Carolina University for the fiscal year ended June 30, 2001, was issued by Cherry, Bekaert, & Holland, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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INDEPENDENT AUDITORS' REPORT

The Office of the State Auditor
and
Members of the Board of Trustees
Coastal Carolina University
Conway, South Carolina

We have audited the accompanying basic financial statements of Coastal Carolina University as of June 30, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Coastal Carolina University, an institution of the State of South Carolina. These basic financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry, Bekaert & Holland, L.L.P.

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The Office of the State Auditor
and
Members of the Board of Trustees
Coastal Carolina University

As discussed in Note 23, Coastal Carolina University changed its method of accounting and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective for periods beginning after June 15, 2000. Under this standard Coastal Carolina University changed its method of reporting private donations and certain grants. Adjustments resulting from changes to comply with this Statement are required to be treated as adjustments of prior periods.

These basic financial statements exclude the related entities described in Note 16 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Cherry, Bekant + Hollands, L.L.P.

Florence, South Carolina
October 2, 2001

BASIC FINANCIAL STATEMENTS

COASTAL CAROLINA UNIVERSITY

Balance Sheet

June 30, 2001

| ASSETS | CURRENT FUNDS | | LOAN FUNDS | ENDOWMENT FUNDS | PLANT FUNDS | | | AGENCY FUNDS | TOTALS (MEMORANDUM ONLY) |
|--|------------------|-------------------|---------------------|--------------------|---------------------|----------------------------------|------------------------|-----------------|--------------------------------|
| | UNRESTRICTED | RESTRICTED | | | UNEXPENDED | RETIREMENT OF INDEBTEDNESS | INVESTMENT IN PLANT | | |
| Cash and Cash Equivalents (Note 15) | \$ 4,646,129 | \$ - | \$ 233,340 | \$ 101,864 | \$ 599,982 | \$ 25,626 | \$ - | \$ 6,174 | \$ 5,613,115 |
| Accounts and Other Receivables, Net (Note 13) | 598,637 | - | - | - | - | - | - | 1,021 | 599,658 |
| Student Loans Receivable, Net (Note 13) | - | - | 1,053,898 | - | - | - | - | - | 1,053,898 |
| Accrued Interest Receivable | 39,482 | 388 | 85 | - | 3,222 | 10,646 | - | - | 53,823 |
| Endowment Income Receivable | - | 1,050 | - | - | - | - | - | - | 1,050 |
| Grants and Contracts Receivables: | | | | | | | | | |
| Federal | - | 452,276 | - | - | - | - | - | - | 452,276 |
| State | - | 77,618 | - | - | - | - | - | - | 77,618 |
| Local | 303 | 8,454 | - | - | - | - | - | - | 8,757 |
| Nongovernmental | 424,027 | 47,355 | - | - | - | - | - | - | 471,382 |
| Gifts Receivable, Net of 149,000 Allowance | - | - | - | - | 380,400 | - | - | - | 380,400 |
| Capital Improvement Bond Proceeds Receivable (Note 3) | - | - | - | - | 7,526,500 | - | - | - | 7,526,500 |
| Inventories (Note 11) | 301,439 | - | - | - | - | - | - | - | 301,439 |
| Prepaid Items | 137,272 | - | - | - | - | - | - | - | 137,272 |
| Purchase Deposit With Vendor | 53,786 | 52,514 | - | - | - | - | - | - | 106,300 |
| Due From Restricted Current Funds (Note 12) | 270,717 | - | - | - | - | - | - | - | 270,717 |
| Deferred Charges | - | - | - | - | - | 377,392 | - | - | 377,392 |
| Land | - | - | - | - | - | - | 164,138 | - | 164,138 |
| Buildings and Improvements | - | - | - | - | - | - | 85,931,047 | - | 85,931,047 |
| Improvements Other than Buildings | - | - | - | - | - | - | 4,968,961 | - | 4,968,961 |
| Furniture, Fixtures, and Equipment | - | - | - | - | - | - | 3,381,193 | - | 3,381,193 |
| Library Materials | - | - | - | - | - | - | 5,048,201 | - | 5,048,201 |
| Construction in Progress | - | - | - | - | - | - | 68,448 | - | 68,448 |
| Total Assets | 6,471,792 | \$ 639,655 | \$ 1,287,323 | \$ 101,864 | \$ 8,510,104 | \$ 413,664 | \$ 99,561,988 | \$ 7,195 | \$ 116,993,585 |

The Accompanying Notes Are An Integral Part of These Financial Statements.

COASTAL CAROLINA UNIVERSITY

Balance Sheet

June 30, 2001

| LIABILITIES AND FUND BALANCES | CURRENT FUNDS | | | | PLANT FUNDS | | | | TOTALS - (MEMORANDUM ONLY) |
|---|---------------------|-------------------|---------------------|--------------------|---------------------|----------------------------------|------------------------|-----------------|----------------------------------|
| | UNRESTRICTED | RESTRICTED | LOAN FUNDS | ENDOWMENT FUNDS | UNEXPENDED | RETIREMENT OF INDEBTEDNESS | INVESTMENT IN PLANT | AGENCY FUNDS | |
| Liabilities: | | | | | | | | | |
| Accounts Payable | \$ 439,197 | \$ 31,377 | \$ 1,624 | \$ - | \$ 1,198,571 | \$ - | \$ - | \$ 1,023 | \$ 1,671,792 |
| Unamortized Bond Premium | - | - | - | - | - | 85,384 | - | - | 85,384 |
| Retainage Payable | - | - | - | - | 938,056 | - | - | - | 938,056 |
| Accrued Interest Payable | - | - | - | - | - | 129,550 | - | - | 129,550 |
| Accrued Payroll and Related Liabilities | 1,227,085 | 13,537 | - | - | 1,519 | - | - | - | 1,242,141 |
| Accrued Compensated Absences and Related Liabilities | 1,309,377 | - | - | - | - | - | - | - | 1,309,377 |
| Unearned Student Revenues | 590,979 | - | - | - | - | - | - | - | 590,979 |
| Deferred Revenues | 5,013 | - | - | - | - | - | - | - | 5,013 |
| Due to Unrestricted Current Funds (Note 12) | - | 270,717 | - | - | - | - | - | - | 270,717 |
| Bonds Payable (Note 4) | - | - | - | - | - | 28,565,000 | - | - | 28,565,000 |
| Funds Held for Others | - | - | - | - | - | - | 6,172 | - | 6,172 |
| Total Liabilities | 3,571,651 | 315,631 | 1,624 | - | 2,138,146 | 214,934 | 28,565,000 | 7,195 | 34,814,181 |
| Fund Balances: | | | | | | | | | |
| Unrestricted | | | | | | | | | |
| Unrestricted, Unallocated | 2,870,141 | - | - | - | - | - | - | - | 2,870,141 |
| Unexpended, Designated | - | - | - | - | 922,913 | - | - | - | 922,913 |
| Restricted | | | | | | | | | |
| Contracts and Grants | - | 324,024 | - | - | - | - | - | - | 324,024 |
| U.S. Government Grants Refundable | - | - | 1,285,699 | - | - | - | - | - | 1,285,699 |
| Endowment | - | - | - | 101,864 | - | - | - | - | 101,864 |
| Unexpended | - | - | - | - | 5,449,045 | - | - | - | 5,449,045 |
| Retirement of Indebtedness | - | - | - | - | - | 198,730 | - | - | 198,730 |
| Net Investment in Plant | - | - | - | - | - | - | 70,996,988 | - | 70,996,988 |
| Total Fund Balances | 2,870,141 | 324,024 | 1,285,699 | 101,864 | 6,371,958 | 198,730 | 70,996,988 | - | 82,149,404 |
| Total Liabilities and Fund Balances | \$ 6,441,792 | \$ 639,655 | \$ 1,287,323 | \$ 101,864 | \$ 8,510,104 | \$ 413,664 | \$ 99,561,988 | \$ 7,195 | \$ 116,963,585 |

The Accompanying Notes Are An Integral Part of These Financial Statements.

COASTAL CAROLINA UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

| | CURRENT FUNDS | | | | PLANT FUNDS | | | TOTALS (MEMORANDUM ONLY) |
|---|-------------------|------------------|---------------|--------------------|-------------------|----------------------------------|------------------------|--------------------------------|
| | UNRESTRICTED | RESTRICTED | LOAN FUNDS | ENDOWMENT FUNDS | UNEXPENDED | RETIREMENT OF INDEBTEDNESS | INVESTMENT IN PLANT | |
| Revenues and Other Additions: | | | | | | | | |
| Unrestricted Current Fund Revenues | \$ 48,688,006 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 48,688,006 |
| State Appropriations - Restricted (Note 2) | - | 1,322,358 | - | - | 200,000 | - | - | 1,522,358 |
| U. S. Government Advances | - | - | 39,816 | - | - | - | - | 39,816 |
| Federal Grants and Contracts - Restricted | - | 3,651,069 | - | - | - | - | - | 3,651,069 |
| State , Grants and Contracts - Restricted | - | 689,500 | - | - | - | - | - | 689,500 |
| Local Grants and Contracts - Restricted | - | 166,955 | - | - | - | - | - | 166,955 |
| Non-governmental Grants and Contracts - Restricted | - | 132,865 | - | - | - | - | - | 132,865 |
| Private Gifts - Restricted | - | 129,337 | - | - | 604,400 | - | - | 733,737 |
| Capital Improvement Bond Proceeds | - | - | - | - | 4,200,000 | - | - | 4,200,000 |
| Interest Income - Restricted | - | 2,752 | 1,023 | - | 159,663 | 57,177 | - | 220,615 |
| Reimbursement of Principal and Interest on Loans Canceled | - | - | 18,071 | - | - | - | - | 18,071 |
| Endowment Investment Income - Restricted | - | 6,565 | - | 3,028 | - | - | - | 9,593 |
| Interest on Student Loans Receivable | - | - | 19,109 | - | - | - | - | 19,109 |
| Expended for Plant Facilities (including \$830,731 charged to Current Funds Expenditures and \$1,045,508 of capitalized interest) | - | - | - | - | - | - | 18,640,833 | 18,640,833 |
| Retirement of Indebtedness | - | - | - | - | - | - | 950,000 | 950,000 |
| Student Tuition and Fees | - | - | - | - | - | 603,631 | - | 603,631 |
| Other Additions | - | - | 651 | - | - | - | - | 651 |
| Total Revenues and Other Additions | 48,688,006 | 6,101,401 | 78,670 | 3,028 | 5,164,063 | 660,808 | 19,590,833 | 80,286,809 |
| Expenditures and Other Deductions: | | | | | | | | |
| Educational and General Expenditures | 42,500,621 | 5,931,330 | - | - | - | - | - | 48,431,951 |
| Auxiliary Enterprises Expenditures | 3,713,861 | - | - | - | - | - | - | 3,713,861 |
| Indirect Cost Recovered | - | 157,388 | - | - | - | - | - | 157,388 |
| Loan Cancellations and Write-Offs | - | - | 25,822 | - | - | - | - | 25,822 |
| Administrative and Collection Costs | - | - | 14,405 | - | - | 4,292 | - | 18,697 |
| Uncollectible Pledge Expense | - | - | - | - | 149,000 | - | - | 149,000 |
| Expended for Plant Facilities (including Noncapitalized Expenditures of \$594,100) | - | - | - | - | 17,358,694 | - | - | 17,358,694 |
| Retirement of Indebtedness | - | - | - | - | - | 950,000 | - | 950,000 |
| Interest and Other Charges on Indebtedness | - | - | - | - | - | 1,578,865 | - | 1,578,865 |
| Disposals of Plant Facilities | - | - | - | - | - | - | 190,299 | 190,299 |
| Refunded to Grantors | - | 5,942 | - | - | - | - | - | 5,942 |
| Total Expenditures and Other Deductions | 46,214,482 | 6,094,660 | 40,227 | - | 17,507,694 | 2,533,157 | 190,299 | 72,580,519 |

The Accompanying Notes Are An Integral Part of These Financial Statements.

COASTAL CAROLINA UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

| | <u>CURRENT FUNDS</u> | | | | <u>PLANT FUNDS</u> | | | <u>TOTALS (MEMORANDUM ONLY)</u> |
|--|----------------------|-------------------|-----------------------|----------------------------|--------------------------|---------------------|--------------------------------|---|
| | <u>UNRESTRICTED</u> | <u>RESTRICTED</u> | <u>LOAN FUNDS</u> | <u>ENDOWMENT FUNDS</u> | <u>RETIREMENT OF</u> | | <u>INVESTMENT IN PLANT</u> | |
| | | | | | <u>UNEXPENDED</u> | <u>INDEBTEDNESS</u> | | |
| Transfers Among Funds - Additions/(Deductions): | | | | | | | | |
| Mandatory: | | | | | | | | |
| Principal and Interest | \$ (1,476,011) | \$ - | \$ - | \$ - | \$ - | \$ 1,476,011 | \$ - | \$ - |
| Loan Fund Matching Grant | (13,272) | - | 13,272 | - | - | - | - | - |
| Nonmandatory: (Note 7) | | | | | | | | |
| Transfer for Capital Projects | - | - | - | - | 277,935 | (277,935) | - | - |
| Transfer from Plant Funds | 88,820 | - | - | - | (88,820) | - | - | - |
| Transfers from Restricted Current Funds | 60,397 | (60,397) | - | - | - | - | - | - |
| Transfers from Unrestricted Current Funds | (637,251) | - | - | - | 637,251 | - | - | - |
| Transfer of Debt Representing Representing Plant Additions | - | - | - | - | 3,351,945 | - | (3,351,945) | - |
| Total Transfers | <u>(1,977,317)</u> | <u>(60,397)</u> | <u>13,272</u> | <u>-</u> | <u>4,178,311</u> | <u>1,198,076</u> | <u>(3,351,945)</u> | <u>-</u> |
| Net Increase (Decrease) for the Year | 496,207 | (53,656) | 51,715 | 3,028 | (8,165,320) | (674,273) | 16,048,589 | 7,706,290 |
| Fund Balances, July 1, 2000 | <u>2,373,934</u> | <u>377,680</u> | <u>1,233,984</u> | <u>98,836</u> | <u>14,537,278</u> | <u>873,003</u> | <u>54,948,399</u> | <u>74,443,114</u> |
| Fund Balances, June 30, 2001 | <u>\$ 2,870,141</u> | <u>\$ 324,024</u> | <u>\$ 1,285,699</u> | <u>\$ 101,864</u> | <u>\$ 6,371,958</u> | <u>\$ 198,730</u> | <u>\$ 70,996,988</u> | <u>\$ 82,149,404</u> |

The Accompanying Notes Are An Integral Part of These Financial Statements.

COASTAL CAROLINA UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2001

| | UNRESTRICTED | RESTRICTED | TOTAL |
|--|-------------------|--------------------|-------------------|
| Revenues: | | | |
| Student Tuition and Fees | \$ 25,241,681 | \$ - | \$ 25,241,681 |
| State Appropriations (Note 2) | 14,751,736 | 1,322,358 | 16,074,094 |
| Federal Grants and Contracts | 172,228 | 3,423,263 | 3,595,491 |
| State Grants and Contracts | 69,607 | 785,383 | 854,990 |
| Local Grants and Contracts | 303,283 | 120,455 | 423,738 |
| Nongovernmental Grants, and Contracts | 317,865 | 141,073 | 458,938 |
| Gifts - Private | 53,461 | 129,497 | 182,958 |
| Endowment Income | - | 6,552 | 6,552 |
| Interest Income | 319,092 | 2,749 | 321,841 |
| Sales and Services of Educational Departments | 875,452 | - | 875,452 |
| Sales and Services of Auxiliary Enterprises | 5,887,961 | - | 5,887,961 |
| Other Fees | 545,658 | - | 545,658 |
| Other Sources | 149,982 | - | 149,982 |
| Total Current Revenues | <u>48,688,006</u> | <u>5,931,330</u> | <u>54,619,336</u> |
| Expenditures and Mandatory Transfers: | | | |
| Educational and General: | | | |
| Instruction | 18,440,877 | 403,894 | 18,844,771 |
| Research | 234,621 | 619,902 | 854,523 |
| Public Service | 181,006 | 638,019 | 819,025 |
| Academic Support | 3,563,953 | - | 3,563,953 |
| Student Services | 5,812,658 | 66,868 | 5,879,526 |
| Institutional Support | 4,652,968 | 38,246 | 4,691,214 |
| Operation and Maintenance of Plant | 4,525,318 | - | 4,525,318 |
| Scholarships and Fellowships | 5,089,220 | 4,164,401 | 9,253,621 |
| Total Educational and General Expenditures | <u>42,500,621</u> | <u>5,931,330</u> | <u>48,431,951</u> |
| Mandatory Transfer for: | | | |
| Loan Fund Matching Grant | 13,272 | - | 13,272 |
| Total Educational and General | <u>42,513,893</u> | <u>5,931,330</u> | <u>48,445,223</u> |
| Auxiliary Enterprises: | | | |
| Expenditures | 3,713,861 | - | 3,713,861 |
| Mandatory Transfers for Principal and Interest | 1,476,011 | - | 1,476,011 |
| Total Auxiliary Enterprises | <u>5,189,872</u> | <u>-</u> | <u>5,189,872</u> |
| Total Expenditures and Mandatory Transfers | <u>47,703,765</u> | <u>5,931,330</u> | <u>53,635,095</u> |
| Other Transfers and Additions/(Deductions): | | | |
| Nonmandatory Transfers Out | (637,251) | (60,397) | (697,648) |
| Nonmandatory Transfers In | 149,217 | - | 149,217 |
| Excess (Deficiency) of Restricted Receipts | | | |
| Over Transfers to Revenues | - | 12,683 | 12,683 |
| Refunds to Grantor Agencies | - | (5,942) | (5,942) |
| Total Other Transfers and Additions/ (Deductions) | <u>(488,034)</u> | <u>(53,656)</u> | <u>(541,690)</u> |
| Net Increases (Decreases) in Fund Balances | <u>\$ 496,207</u> | <u>\$ (53,656)</u> | <u>\$ 442,551</u> |

The Accompanying Notes Are An Integral Part of These Financial Statements.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) in the United States of America for all state governmental entities including colleges and universities. The financial statements of Coastal Carolina University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA college guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or sets rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only Coastal Carolina University (a primary entity).

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education effective July 1, 1993, by Section 59-136-100 of the Code of Laws of South Carolina. The University was formerly a regional campus of the University of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of the Governor of the State or his designee, who is an ex officio member of the board, and sixteen members, with fifteen of these members elected by the General Assembly and one member appointed from the State at large by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of Coastal Carolina University.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Transfers are amounts moved between fund groups/subgroups to be used for the objectives of the recipient fund. Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Nonmandatory transfers are made at the discretion of the governing body for a variety of purposes. They may include the retransfer of unexpended resources to the fund, which initially provided the monies. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment; computer software developed or obtained for internal use; and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of the endowment fund which is accounted for in the fund to which it is restricted.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The *Current Funds* group includes those economic resources, which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Unrestricted current funds include but are not limited to all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Restricted current funds are those available for financing operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Current funds revenues include (1) all unrestricted gifts, grants and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include resources that are restricted by external persons or agencies to transactions or purposes accounted for in other than current funds. Additional policy disclosures regarding revenue recognition are described elsewhere in this note under Basis of Accounting, Gifts and Other Nonexchange Transactions, and Deferred Revenues and in Note 24 - Gifts. Unrestricted resources other than gifts and other nonexchange transactions are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprise activities include housing, bookstore, food services, student health services, and vending. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$2,582,102 at June 30, 2001.

The *Loan Funds* group accounts for the resources available for loans to students from government agencies and mandatory institutional matching grants. Expenditures include costs of loan collections, loan cancellations and write-offs in accordance with loan program terms, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment Fund* group only includes permanent endowment funds; the University has no term endowment funds or funds functioning as endowments (quasi-endowments). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require the income to be used for specified purposes. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds are established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and gains/losses attributable to investment transactions.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related thereto for unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, unamortized balances of bonds payable discounts and premiums and of bond issue costs, and interest and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets is included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 2001, Coastal Carolina University retained \$157,388 in indirect cost recoveries.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave. This policy also applies to 12-month faculty members while faculty members working less than 12 months do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of assets acquired by gift. An asset contributed to the University by another State agency is valued at the cost to the agency that originally acquired the asset. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges.

Equipment purchased under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable educational and general expenditure categories of the current funds group as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as improvements other than buildings and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Any associated debt is simultaneously transferred to the investment in plant funds subgroup. Once a project reaches 90 percent completion, the costs are capitalized in the appropriate asset accounts in investment in plant.

Computer software costs to be capitalized include the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

These costs are incurred during the application development stage. The capitalized costs of computer software developed or obtained for internal use are amortized on a straight-line basis over an estimated useful life of three years. Coastal Carolina University capitalized no internal use computer software costs for the year ended June 30, 2001.

Library books, periodicals, microfilms, and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes qualifying equipment with a unit value in excess of \$5,000 and a useful life in excess of one year; computer software with a cost in excess of \$50,000 and a useful lives in excess of one year; and all library materials regardless of cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift by an external party, where applicable, is removed from the investment in plant subgroup. When capitalized software is retired the unamortized balance is removed. For library materials deleted from the collection the values are removed annually at fiscal year-end based upon the average cost of volumes at year-end. Books are removed from circulation throughout the year when deemed unrepairable and annually when judgmentally selected based upon circulation history.

In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment depreciation is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore, asset values in the investment in plant subgroup include such interest costs.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for University events which amounts have not been earned. In prior years these balances were classified as unearned other revenues.

Unearned student revenues consist primarily of student tuition and fees, room and board, and meal plan receipts collected in advance for the second summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned. Also included are amounts arising from gifts and voluntary nonexchange transactions received before eligibility requirements are met.

COASTAL CAROLINA UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts and Other Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the University either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The University mainly engages in voluntary nonexchange transactions. This type of transaction includes certain grants and donations. Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a) The recipient has the characteristics specified by the provider.
- b) The recipient has met the time requirements specified by the provider.
- c) The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
- d) The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Generally the University recognizes revenue from pledges from individuals and organizations, other than the two related parties described in Note 16 when collected because it is not practicable to estimate the net realizable value of the uncollected pledges. Most pledges of gifts to benefit the University are made through one of the two related parties described in Note 16 to the financial statements.

Gifts are a type of nonexchange transaction. Gifts include resources donated to the University for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current fund gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are received or promised. Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current year and met all eligibility requirements. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., of when the donor announces the gift or notifies the university of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the university receives the money.

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenues by the recipients.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Educational Activities Revenue

Revenues from sales and services of educational departments generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from activities of student groups and athletic teams, student travel study, public service activities, and rental of facilities to the public.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance, library books and periodicals, and magazine subscriptions.

Cash and Cash Equivalents

The amounts shown in the financial statements as "Cash and Cash Equivalents" represent petty cash, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the University, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 15.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. Coastal Carolina reports its deposits in the special deposit accounts at fair value. Investments held by the pool are reported at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains and losses, and unrealized gains and losses arising from changes in the fair value of investments. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year-end based on the University's percentage ownership in the pool.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup. Restricted assets are set aside to liquidate the liability.

Information Technology Costs

Noncapitalized information technology (IT) costs are not budgeted and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category (\$1,190,399) and other IT costs (\$315,158) are reported in institutional support.

Fund Raising Costs

The costs of fund raising activities, if any, are reported in the institutional support functional category and do not include management and general or other program costs of the University. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

Institutional Support Costs

Institutional Support includes expenditures for central administration, Board of Trustee operations, fiscal operations, public relations, and community and alumni relations.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another fund are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

Deferred Charges, Bond Discounts and Premiums, and Amortization

Deferred charges consisting of bond discounts and issuance costs are reported in the asset section of the University's balance sheet. Unamortized bond premiums are reported in the liability section of the balance sheet of the retirement of indebtedness plant funds subgroup. Premiums and discounts are amortized as elements of interest and other charges on indebtedness over the lives of the applicable bond issues using the bonds outstanding method. Amortization of deferred premiums is recorded as a reduction of interest and other charges on indebtedness; whereas, amortization of deferred charges is reported as an addition to those expenditures.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5F of Part IA of the 2000-2001 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2001:

| | |
|--|---------------------|
| Original Appropriation | \$11,988,261 |
| Less: Appropriation Reduction | (133,219) |
| State Budget and Control Board Allocations for | |
| Employee Base Pay Increases and Related | |
| Employee Benefits (Proviso 63C.9) | 473,755 |
| Appropriation Allocations from the State | |
| Commission on Higher Education: | |
| For Performance Funding | 916,906 |
| For Academic Endowment Match | 43,303 |
| For Access and Equity Competitive Grants | |
| From Capital Reserve Fund Appropriations | |
| for Performance Funding | 1,404,345 |
| From the Children's Education Endowment Fund | |
| for Palmetto Fellows Scholarships | 62,500 |
| From the Children's Education Endowment Fund For: | |
| For Need Based Student Grants | 310,255 |
| For LIFE Scholarships | 908,175 |
| Less LIFE Scholarships refunded | (1,875) |
| For Instructional Technology Grants | 24,928 |
| From Supplemental Appropriations of 2000 Surplus State General | |
| Fund Revenues (Section 2 June 2000 Act R453 H3649) for: | |
| Atlantic Center | 200,000 |
| Art Department Accreditation Project | 75,000 |
| From EIA Funding for Higher Education Awareness Program | <u>1,760</u> |
| Revised Appropriations - Accrual Basis | <u>16,274,094</u> |
| Less: Capital Projects Funding Reported in | |
| Unexpended Plant Fund | 200,000 |
| Less: Academic Endowment Match Reported In the | |
| Restricted Current Funds | 43,303 |
| Less: Higher Education Student Grant/Scholarship Funding | |
| Reported in Restricted Current Funds | <u>1,279,055</u> |
| Funding Reported in Unrestricted Current | |
| Funds | <u>\$14,751,736</u> |

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The University recognized the following EIA revenues from the State Commission on Higher Education as state grants and contracts revenue in the restricted current funds group.

| | |
|-------------------------------|-----------|
| Centers of Excellence Program | \$121,423 |
|-------------------------------|-----------|

The University also recognized \$18,287 of access and equity money and \$31,708 received from the Budget and Control Board for 401K employee deferred compensation match. These amounts were reported in the current unrestricted fund.

In addition the University returned \$5,256 in unspent Access and Equity money to the State Commission on Higher Education during fiscal year 2001. As such the amount included in the above schedule is reported net of the amount returned.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In current and prior years, the State authorized funds for improvements and expansion of classroom and faculty office facilities, athletic facilities, and a marine science facility using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance receivable for the undrawn portion of the authorization is reported in the balance sheet in the unexpended plant funds subgroup as "capital improvement bond proceeds receivable." A summary of the activity in the balance available from this authorization during the year ended June 30, 2001, follows:

| | Total | Amount Drawn in | Amount Drawn In Fiscal Year Ended | Balance Authorized |
|-----------------|---------------------|--------------------|---|-----------------------|
| <u>Act</u> | <u>Authorized</u> | <u>Prior Years</u> | <u>June 30, 2001</u> | <u>June 30, 2001</u> |
| Act 111 of 1997 | \$11,775,000 | \$5,000,000 | \$6,775,000 | \$ -0- |
| Act 28 of 1999 | 5,601,500 | -0- | 2,275,000 | 3,326,500 |
| Act 453 of 2000 | 4,200,000 | -0- | -0- | 4,200,000 |
| Total | <u>\$21,576,500</u> | <u>\$5,000,000</u> | <u>\$9,050,000</u> | <u>\$ 7,526,500</u> |

Of the balance available at June 30, 2001, the University is scheduled to withdraw funds after July 1, 2001, in accordance with the draw schedule established by the Joint Bond Review Committee (JBRC) and approved by the State Budget and Control Board.

| | |
|-----------------------------------|--------------------|
| July 1, 2001 to December 31, 2001 | \$3,651,500 |
| January 1, 2002 to June 30, 2002 | 1,575,000 |
| July 1, 2002 to December 31, 2002 | 2,060,000 |
| Unscheduled | <u>240,000</u> |
| Total | <u>\$7,526,500</u> |

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE

At June 30, 2001, bonds payable consisted of the following, which are reported in the investment in plant fund.

| | <u>Interest Rates</u> | <u>Maturity Dates</u> | <u>June 30, 2001 Balance</u> |
|--|---------------------------|---------------------------|----------------------------------|
| State Institution Bonds - Series 1993C | 4.1% to 4.5% | April 1, 2002 | \$ 325,000 |
| Auxiliary Facilities Revenue Bonds - Series 1994 | 6.125% to 6.875% | June 1, 2017 | 4,335,000 |
| Auxiliary Facilities Refunding and Improvement Revenue Bonds - Series 1999 | 4.875% to 5.300% | June 1, 2026 | <u>23,905,000</u> |
| Total | | | \$ <u>28,565,000</u> |

The bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition paid to the University is restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. Revenue received for dormitory housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on auxiliary facilities revenue bonds.

The University has purchased a bond insurance policy for each revenue bond issue outstanding in favor of the bond trustee for the auxiliary facilities revenue bonds-series 1994 and the auxiliary facilities revenue bonds-series 1999. The insurance covers payment of principal and interest for a period equal to the final maturity of the bonds in the case of insufficient resources in the debt service fund to prevent default in the payment of the principal of or interest on the bonds. Bond covenants require that an insurance policy payable to the Trustee for the benefit of the bond holders in an amount which, together with other moneys on deposit in the debt service account is equal to the applicable requirement. There is no debt service reserve requirement for State Institution Bonds.

For both revenue bond issues the University must generate net revenues available for debt service of not less than 125 percent of debt service payments due in each bond year. Net revenues include all revenue sources of the University except revenues derived from appropriations received from the General Assembly of the State of South Carolina and tuition fees collected to pay debt service on state institution bonds issued on behalf of the University. Revenues also exclude all gifts, bequests, contributions, and donations restricted to a particular purpose inconsistent with their use both for the payment of principal of, premium, or interest on the bonds and for the payment of expenditures. Revenue sources irrevocably pledged to payment of the revenue bonds include student tuition and fees, subordinate to the state institution bonds annual debt service requirements, sales and services of auxiliary enterprises and all other sources, excluding state appropriations and restricted revenues.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

Beginning June 1, 2004, the Series 1994 revenue bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the University's Board of Trustees. The redemption prices (expressed as a percentage of the principal redeemed) for the revenue bonds range from two percent in 2004 to par in 2006 and thereafter.

Beginning June 1, 2009, the Series 1999 revenue bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the University's Board of Trustees. The redemption prices (expressed as a percentage of the principal redeemed) for the revenue bonds range from one percent in 2009 to par in 2011 and thereafter.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2001 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2002 | \$ 675,000 | \$ 1,510,732 | \$ 2,185,732 |
| 2003 | 710,000 | 1,475,638 | 2,185,638 |
| 2004 | 745,000 | 1,438,714 | 2,183,714 |
| 2005 | 785,000 | 1,399,956 | 2,184,956 |
| 2006 | 825,000 | 1,359,060 | 2,184,060 |
| 2007 through 2026 | <u>24,500,000</u> | <u>15,891,510</u> | <u>40,391,510</u> |
| Total Obligations | <u>\$28,240,000</u> | <u>\$23,075,610</u> | <u>\$51,315,610</u> |

Amounts as of June 30, 2001, including interest required to complete payment of the State general obligation bonds issued for the University are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|------------------|-----------------|--------------|
| 2002 | \$325,000 | \$14,625 | \$339,625 |

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement for state institution bonds are recorded directly in the funds for retirement of indebtedness as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement on revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The University reported principal retirements and interest payments related to the bonds payable as follows for the year ended June 30, 2001.

| <u>Bond Type</u> | <u>Principal</u> | <u>Interest</u> |
|---|-------------------|--------------------|
| State Institution | \$ 315,000 | \$ 28,485 |
| Auxiliary Facilities Refunding and Improvement Revenue | 475,000 | 1,252,005 |
| Auxiliary Facilities Revenue | <u>160,000</u> | <u>291,681</u> |
| Total | <u>\$ 950,000</u> | <u>\$1,572,171</u> |

The amount of interest from above (\$1,572,171) plus \$18,546 amortization of bond issue costs and bond discounts, less \$5,641 of bond premium amortization, less \$6,211 change in accrued interest is reported in the retirement of indebtedness fund as interest and other charges on indebtedness. Of the interest \$1,045,508 was capitalized as part of the cost of construction in progress. At June 30, 2001 there were \$377,392 of unamortized bond issue costs and discounts and \$85,384 of unamortized bond premiums.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 4 - BONDS PAYABLE (CONTINUED)

In prior years, Coastal Carolina University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the revenue bonds are considered defeased, the liability for the defeased bonds have been removed from the investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2001, \$7,880,000 of bonds outstanding is considered defeased.

Debt Service Limitation On State Institution Bonds

South Carolina Code of Laws Section 59-107-90 requires that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 2000 were \$577,234, which results in a legal annual debt service limit at June 30, 2001 of \$519,511.

NOTE 5 - Notes Payable

Proceeds from a bank note under the State Treasurer's Office Master Lease Program in the amount of \$233,493 dated, January 30, 1998, were used to purchase computer hardware, software, scanners, and printers. Because these items had an original cost of less than \$5,000 they were not capitalized. The note, collateralized by these items with unit values less than \$5,000, is recorded in the unrestricted current fund and payments on the note are funded by unrestricted current funds. The note bears an interest rate of 4.277% and matured on January 1, 2001. The University is required to pay all insurance and property taxes, if any, and to maintain the items in good working order. The note is payable in quarterly installments plus interest. Payments for fiscal year 2001 were \$41,531, of which \$657 represented interest and \$40,874 was applied to principal.

Under the Master Lease Program the University, on June 28, 2001 entered in to an agreement with Banc of America Leasing and Capital LLC whereby the University will be able to acquire up to \$700,000 in equipment. The original agreement required the equipment to be purchased by December 31, 2001. Subsequent to June 30, 2001 the date was extended to June 30, 2002. Note proceeds will be used to purchase a new chiller and gas fired boiler, fire sprinkler, telephone switching equipment, computers and power correction equipment. The note is to be collateralized by the equipment to be purchased. The note will be payable in quarterly installments. The actual interest rate will be determined on the date note proceeds are received. The University anticipates this rate will be approximately four percent. The University plans to purchase the assets using current unrestricted funds and then reimburse the current unrestricted fund using proceeds from the note. The note will be payable in quarterly installments using current unrestricted funds.

NOTE 6 - LEASE OBLIGATIONS

The University has entered into various cancelable operating leases for the use of office equipment and for automobiles. The lease agreements, which may be terminated by either party, expire in various fiscal years from 2002 through 2003. Most copier leases provide for renewal options for periods from 12 to 24 months at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Operating lease expenditures in 2001 were \$175,145 for office equipment, and \$57,586 for automobiles. The University reports these costs in the applicable current funds functional expenditure categories.

On July 1, 2000, the University renewed an operating lease with the Coastal Educational Foundation, Inc., a related party, for the use of personal computers and printers in the Wall School of Business Administration and Computer Science. The lease agreement expired on June 30, 2001, and was renewed for an additional year. Annual rentals of \$200 were paid to the Foundation under the lease agreement. The University is responsible for insurance and maintenance on the computer equipment. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 7 - INTERFUND TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds.

In fiscal year 2001, the University transferred \$277,935 for that purpose which is reported as a nonmandatory transfer from the retirement of indebtedness subgroup to the general capital projects funding account of the unexpended plant funds subgroup. The expended balance is reported in unrestricted fund balance. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. During the current year, the University transferred \$102,700 within the unexpended plant funds subgroup from the general funding account to finance specific capital projects. Unexpended balances of the specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 7 - INTERFUND TRANSFERS (CONTINUED)

In addition, during fiscal year 2001, the University recorded other interfund operating transfers as follows:

| <u>From</u> | <u>FUND</u> | <u>To</u> | <u>Amount</u> | <u>Purpose</u> |
|-------------------------------|-------------|-------------------------------|---------------|--|
| Mandatory Transfers | | | | |
| Unrestricted Current | | Retirement of Indebtedness | \$1,476,011 | To Cover Revenue Bond Debt Service Payments |
| Unrestricted Current | | Loan | \$ 13,272 | Funds to Cover Perkins Loan Match |
| Nonmandatory Transfers | | | | |
| Unrestricted Current | | Unexpended Plant | \$637,251 | Funding of Construction Projects |
| Unexpended Plant | | Unrestricted Current | \$ 88,820 | Return of Unexpended Funds |
| Restricted Current | | Unrestricted Current | \$ 60,397 | Grant Fund Balances Released From Restrictions |

NOTE 8 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS); a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws.

This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 8 - PENSION PLANS (CONTINUED)

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. Disability annuity benefits are payable to employees if disability is due to a work-related injury regardless of years of service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment, or at the end of the TERI period whichever is earlier, participants will begin receiving monthly service retirement benefits, which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.00 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent, which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2001, 2000, and 1999, were \$1,278,296, \$1,192,640, and \$1,095,617, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. The University paid employer group-life insurance contributions of \$25,397 in the current fiscal year at the rate of .15 percent of compensation. The University paid no pension costs for employees on educational leave.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 8 - PENSION PLANS (CONTINUED)

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55.

A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The University's actual contributions to the PORS for the years ended June 30, 2001, 2000, and 1999, were \$33,327, \$30,675, and \$27,881, respectively, and equaled the required contributions of 10.30 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$647 and accidental death insurance contributions of \$647 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contribution expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfounded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 8 - PENSION PLANS (CONTINUED)

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions and effective July 1, 1998, to certain teachers and administrators of the State's publicly supported technical colleges who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.52 percent from the employer in fiscal year 2001.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$441,070 (excluding the surcharge) from the University as employer and \$350,519 from its employees as plan members. The employee's contribution of 6% plus the employer's contribution of 5% were remitted to the respective annuity providers. The remaining 5.07% of the employer's contribution plus the surcharge was remitted to the Retirement Division of the State Budget and Control Board. The obligation for payment of benefits resides with the insurance companies.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit (the last five of which were in a consecutive permanent position) to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$1,641,467 for the year ended June 30, 2001.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

As discussed in Note 8, the University paid \$582,035 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 10 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employee's salaries. The State appropriated funds from unspent fiscal year 1999-2000 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2001 Appropriation Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue source. The 401(k) contribution match was limited to \$300. To be eligible an employee must have been a permanent full-time State employee for 24 continuous months as of July 1, 1999 or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. The employee must also have established a 401(k) account with annual contributions equal to the match. The later requirement is waived for employees earning less than \$20,000. The University contributed \$37.50 per pay period for each eligible employee beginning March 15, 2001. For the year ended June 30, 2001 the total University contribution amount was \$77,886, of which \$31,708 was reimbursed from State general fund appropriations for state funded employees. The expenditures are reported in fringe benefits in the appropriate functional category.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 11- INVENTORIES

Inventories for internal use are valued at cost, using the first-in, first-out and weighted average cost determination methods. Vending inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 2001:

| <u>Category</u> | <u>Method</u> | |
|-----------------------|---------------------|------------------|
| Campus Central Supply | First-in, first-out | \$ 9,625 |
| Postage | First-in, first-out | 66,869 |
| Vending | First-in, first-out | 12,552 |
| Maintenance Supply | Weighted average | <u>212,393</u> |
| | | <u>\$301,439</u> |

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account, which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. Amounts due to unrestricted current funds are for loans made to cover deficit cash balances. At June 30, 2001, unrestricted current funds reported a \$270,717 inter-fund receivable balance, which was due from restricted current funds.

NOTE 13 - STUDENT LOANS RECEIVABLE, ACCOUNTS RECEIVABLE, AND OTHER RECEIVABLES

With minor exceptions, allowances for losses for student loans receivable and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2001, the allowances for student loans receivable in loan funds and student accounts receivable in unrestricted current funds are valued at \$91,016 and \$94,266, respectively.

An analysis of accounts receivable and student loans receivable at June 30, 2001, are as follows:

| | Unrestricted Current <u>Funds</u> | Loan <u>Funds</u> |
|---|---|----------------------|
| Student Accounts Receivable | \$335,144 | \$ - |
| Student Loans Receivable | - | 1,144,914 |
| Bookstore Receivable | 69,971 | - |
| Outside Scholarships Receivable | 190,751 | - |
| Returned Checks | 3,612 | - |
| Housing Fees Receivable | 45,520 | - |
| Continuing Education Receivable | 47,850 | - |
| Other Receivables | 55 | - |
| Subtotal | <u>692,903</u> | <u>1,144,914</u> |
| Less: Allowances for Doubtful Accounts | (94,266) | <u>(91,016)</u> |
| Student Loans and Accounts and Other Receivables - Net | <u>\$598,637</u> | <u>\$1,053,898</u> |

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next two years at an estimated total cost of \$4,575,000. Of the total cost, approximately \$4,506,500 is unexpended at June 30, 2001. Of the total expended through June 30, 2001, the University capitalized substantially complete and in use projects costing \$17,028,752 in the applicable investment in plant asset categories. Of the unexpended balance at June 30, 2001, the University had remaining commitment balances of approximately \$101,955 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Major capital projects at June 30, 2001, which constitute construction in progress, that are to be capitalized when completed are listed below.

| <u>Project Title</u> | <u>Estimated Cost</u> | <u>Amount Expended</u> |
|------------------------------------|----------------------------|----------------------------|
| Nicholas Tennis/Softball Field | \$ 175,000 | \$ 1,090 |
| Multi-Purpose Athletic Field House | 4,000,000 | 41,502 |
| Humanities and Fine Arts Building | 18,484,761 | 17,028,752 |
| Atlantic Center | 400,000 | 24,866 |
| Laundry Facility | <u>200,000</u> | <u>990</u> |
| Total | <u>\$23,259,761</u> | <u>\$17,097,200</u> |

The amount expended includes only capitalized costs. There were no noncapitalized expenditures on these projects. However, the above projects do not include \$1,904 of capitalized interest expense.

The University anticipates funding these projects out of current funds resources, current and future bond issues, state capital improvement bond proceeds, state general fund appropriations, private gifts, and student fees.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 15 - DEPOSITS

All deposits of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

| <u>Balance Sheet</u> | | <u>Footnotes</u> | |
|---------------------------|--------------------|-------------------------------------|---------------------|
| Cash and Cash Equivalents | \$5,613,115 | Cash on Hand | \$ 23,090 |
| | | Deposits Held by State Treasurer | <u>5,590,025</u> |
| | <u>\$5,613,115</u> | | \$ <u>5,613,115</u> |

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 4, retirement of indebtedness funds include \$22,688 restricted cash held by the State Treasurer for debt service funds.

NOTE 16 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include The Coastal Educational Foundation, Inc. and the Coastal Carolina Booster Club, Inc. The financial statements of these entities are audited by independent auditors retained by them. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties. The University incurred some expenditures, primarily for salary, fringe benefits, supplies, and office support for one employee who serves as the staff accountant to handle the Foundation's financial responsibilities. These expenditures in the amount of \$24,215 were reimbursed by the Foundation and were recorded as a reduction of institutional support expenditures in the unrestricted current funds.

In conjunction with its implementation of GASB Statement No. 14 and each year thereafter, management reviews its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 16 - RELATED PARTIES (CONTINUED)

Depending on the outcome of that project and other future GASB pronouncements, one or both of these parties may become component units of the University and/or part of the financial reporting entity.

The Coastal Educational Foundation, Inc.

The Coastal Educational Foundation, Inc., (the Foundation) was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, civic, moral, and educational purposes. The Foundation has historically been operated primarily for the use and benefit of Coastal Carolina University. Funds from the Foundation are used mainly for scholarships, cultural arts events, faculty development, and special University projects for which funds are raised by the Foundation. During the year, the University received \$931,550 from the Foundation, which is reported as nongovernmental grants and contracts and private gifts revenue as follows:

| | <u>Revenue</u> | <u>Receivable</u> |
|--|------------------|-------------------|
| Unrestricted Current Funds | | |
| Nongovernmental Grants and Contracts | \$182,734 | \$280,780 |
| Unexpended Plant Funds | | |
| Private Gifts | 604,400 | 380,400 |
| Restricted Current Funds | | |
| Nongovernmental Grants and Contracts - Restricted | 22,016 | 18,186 |
| Private Gifts - Restricted | <u>122,400</u> | |
| Total | <u>\$931,550</u> | |

As part of the amounts above, included in accounts receivable at June 30, 2001, is \$280,780 due from the Foundation to fund such activities as student and faculty travel, cultural arts events and the purchase of educational equipment. The restricted private gifts are to fund scholarships. The unexpended plant fund gifts are to fund buildings and improvements.

During the year ended June 30, 2001, the University paid the Foundation \$200 under a lease for computer equipment and \$23,370 for the lease of an activity field. The leases were for a one-year period ended June 30, 2001.

The Coastal Carolina Booster Club, Inc.

The Coastal Carolina Booster Club, Inc. (CINO Club) was incorporated under the laws of South Carolina as the University's athletic fund-raising organization. Contributions to the Booster Club are used for athletic scholarships and program development. During the year, the University reported \$100,000, as nongovernmental grants and contracts revenue in the unrestricted current funds. The entire amount is a receivable at June 30, 2001 and is reported in nongovernmental grants and contracts receivable.

Audited financial statements of the Coastal Educational Foundation, Inc. and the CINO Club for the year ended June 30, 2001 are available from the respective organizations.

COASTAL CAROLINA UNIVERSITY

Notes to Financial Statements

June 30, 2001

NOTE 17 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking and bond trustee services from the State Treasurer; legal services from the Attorney General; and grants services from the State Budget and Control Board.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans' employee and employer contributions, insurance coverage, purchase of used vehicles, and office supplies. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2001 expenditures applicable to these transactions are not readily available.

The University purchased various goods and services from other State agencies during fiscal year 2001. The University passed certain federal grant funds to other State agencies, primarily to the South Carolina Department of Health and Environmental Control, University of South Carolina, and the Medical University of South Carolina.

The University provided no services free of charge to other State agencies during the fiscal year. The University continued its cooperative agreement with Winthrop University to offer the Winthrop University Master of Business Administration degree through distance learning on the Coastal Carolina University campus. Coastal Carolina University recorded \$28,500 of state grants and contracts revenue and related expenditures in the instruction functional category in unrestricted current funds. Coastal Carolina also received \$12,128 from Winthrop University for the Curriculum Leadership Institute. This revenue was recorded as state grant contract revenue in the restricted current fund. A like amount for expenditures was recorded in the instruction functional category of the restricted current fund. As subrecipient, the University received federal grant funds from the Department of Natural Resources, Department of Health and Environmental Control, Sea Grant Consortium, College of Charleston, South Carolina Humanities Council, South Carolina Department of Education, and the South Carolina Commission on Higher Education. The University, as part of its federal grant programs, paid \$19,437 to the University of South Carolina and \$1,956 to the Medical University of South Carolina for services related to the grant programs.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 2001

NOTE 18 - CONTINGENCIES AND LITIGATION

Coastal Carolina University is involved in a number of legal proceedings and claims with various parties, which arose in the normal course of college business. These proceedings involve several different matters. The damages claimed are not material. In the opinion of management and internal counsel the risk of loss in any of the proceedings is remote. The loss, if any, would be paid by the Insurance Reserve Fund. Therefore, an estimated liability has not been recorded.

The various federal programs administered by the University for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end. Therefore, an estimated loss has not been recorded.

NOTE 19 - RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid up to forty five days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

Coastal Carolina University recorded expenditures of approximately \$99,300 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. Of that amount none is reported as an accrued payroll liability at June 30, 2001, for related disbursements to be made in future fiscal years. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001 is \$127,272.

NOTE 20 - RISK MANAGEMENT

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement.

COASTAL CAROLINA UNIVERSITY
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NOTE 20 - RISK MANAGEMENT (CONTINUED)

Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, watercraft (ocean marine), and equipment on marine research vessels (inland marine);
4. Torts;
5. Art collection (inland marine);
6. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation, and destruction. The fidelity coverage has policy limits and deductibles some of which vary for regular and peak periods. In addition, the University's Board of Trustees are covered by a commercial insurer for liability for wrongful acts for \$1,000,000. The policy has a deductible of \$5,000.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current funds.

COASTAL CAROLINA UNIVERSITY
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NOTE 20 - RISK MANAGEMENT (CONTINUED)

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, policy limits, under insurance, and co-insurance for any covered losses to a State or commercial insurer. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 2001, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2001, and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for current trends and other factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore no loss accrual has been recorded.

Self-Insurance

The University has elected not to obtain business interruption insurance on its housing operations, an auxiliary enterprise. The University's management believes the risk of loss is remote and it is more economical to manage such risks internally.

Revenues and expenditures for 2001 relating to housing operations were \$3,533,5803 and \$1,476,011, respectively.

The University is unable to estimate lost revenues, the cost of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. However, the University estimates that it would be able to house displaced students in other University-operated housing facilities in the event of a loss.

Further, the University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., collision and comprehensive coverage on certain motor vehicles) it is more economical to manage such risks internally and fund such losses, should they occur, from unrestricted current funds and government disaster assistance.

Claims liabilities for such uninsured risks of loss and for the underinsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for unsettled claims, claims in the process of review, and claims that have been incurred but not reported (IBNR claims) which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors) and using past experience adjusted for current trends and other factors

COASTAL CAROLINA UNIVERSITY
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NOTE 20 - RISK MANAGEMENT (CONTINUED)

that would modify past experience. The claims liability includes deductions for estimated recoveries from government disaster assistance on settled and unsettled claims and includes estimated costs of specific, incremental claim adjustment expenditures. They are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors. In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 21 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments* and Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis - For Public Colleges and Universities*. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

NOTE 22 - DISCONTINUED OPERATIONS

Effective March 1, 2001 Coastal Carolina University and the Follet Higher Education Group (Follet) signed an agreement whereby Follet would manage the University Bookstore. This agreement is effective for three years. Thereafter, the terms shall be automatically self-renewing for two (2) additional one (1) year periods under the same provisions, unless one of the parties notifies the other party in writing at least one hundred and twenty days (120) before the expiration of the then current term that it will terminate the agreement at the end of the term. Either party may terminate this agreement upon one hundred and twenty days written notice to the other party. Follet will invest up to \$185,000 in leasehold improvements to the Bookstore. These improvements will be amortized over a five-year period using the straight-line method. In the event the University terminates the agreement for any reason it agrees to pay Follet the then unamortized portion of any leasehold improvements put in place by Follet. The agreement further requires the University to either repurchase the existing bookstore inventory under the same terms as purchased by Follet or require the new bookstore operator to repurchase the inventory under the same terms. Under this agreement Follet will remit to the University 9.10% of all gross revenue up to \$2,000,000, 10.10% of all gross revenue between \$2,000,000 and \$3,000,000 and 11.10% of all gross revenue over \$3,000,000. The agreement defines gross revenue as sales (retail, e-commerce or otherwise) less refunds, taxes, computer hardware sales, sales to the University for scholarship students and interdepartmental faculty, staff, and other sales made at a discount. Payments are to be made quarterly, twenty days after the end of the quarter. For the year ended June 30, 2001 the bookstore reported operating revenues of \$1,380,146, expenditures of \$1,282,510 and transfers out to the restricted current fund for scholarships and matching amounts for federal grants of \$145,500. For year ended June 30, 2000 the bookstore reported operating revenues of \$1,422,788, expenditures of \$1,322,918 and transfers out of \$163,787. At June 30, 2000 the bookstore's inventory balance, valued on a first in-first out basis, was \$269,798.

COASTAL CAROLINA UNIVERSITY
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NOTE 22 - DISCONTINUED OPERATIONS (CONTINUED)

As part of the sale Follet purchased \$37,861, which was the University's cost in the inventory, of bookstore inventory from the University. All other assets and liabilities were retained by the University.

NOTE 23 - COMMITMENTS

At June 30, 2001 the University had committed to purchasing equipment costing \$214,800. A deposit of \$106,300 had been paid prior to June 30, 2001 and the University anticipates paying the balance due out of current funds resources.

NOTE 24 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 2000 the University adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for periods beginning after June 15, 2000. This statement establishes accounting and financial reporting guidance about when to report the results of nonexchange transactions involving cash and other financial and capital resources. This results in a change to the University's method of accounting for private donations, pledges of gifts, and certain grants. These are voluntary nonexchange transactions, which are recognized when all eligibility requirements are met. "Certain grants" refers to nonexchange federal, state or private grants.

In previous years private donations, pledges of gifts, and certain grants were recognized when the University received the funds.