

COASTAL CAROLINA UNIVERSITY COMPREHENSIVE ANNUAL FINANCIAL REPORT



FINANCIAL SECTION

State of South Carolina



Office of the State Auditor

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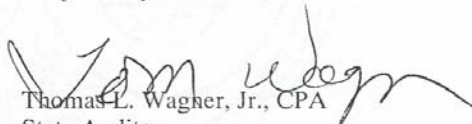
October 23, 2003

The Honorable Mark Sanford, 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, 2003, was issued by Walda Wildman, LLC, 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,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

September 5, 2003

Mr. Thomas L. Wagner Jr., CPA
State Auditor, State of South Carolina
Columbia, South Carolina

I have audited the accompanying basic financial statements of Coastal Carolina University (the University) as of June 30, 2003, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. I believe that my audit and the report of other auditors provide a reasonable basis for my opinion.

As described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position, results of operations, and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University. These financial statements do not include other funds, enterprises or component units of the State. These financial statements are not intended to present fairly the financial position of the State of South Carolina as of June 30, 2003, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In my opinion, based on my audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 5, 2003, on my consideration of the University's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of my audit.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules required by the Office of the South Carolina Comptroller General, as listed in the table of contents, and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

Walda Wildman, LLC

WALDA WILDMAN, LLC
Certified Public Accountant

Coastal Carolina University

Management's Discussion and Analysis

Coastal Carolina University is pleased to present its financial report for the year ended June 30, 2003. This section, Management's Discussion and Analysis, will describe each of the statements, present a condensed, comparative version of each one, and offer financial highlights of the year.

Using the Annual Financial Report

The University's financial statements have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Fiscal year 2002 was the University's implementation year for this format.

The basic financial statements prescribed by GASB No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities of the University. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. A public University's dependency on State aid and gifts could result in operating deficits because the financial reporting model classified State appropriations and gifts as non-operating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature.

Financial Highlights

There were four major financial highlights for fiscal 2002-2003:

- ❖ First, the University's full time equivalency (FTE) enrollment increased by 13.6 percent, to 5,095 students for the fall of 2002.
- ❖ Second, in the same year, the state cut the University's general appropriation by \$1.2 million. The enrollment growth, combined with tuition increases, helped buffer the operating budget shortfall.
- ❖ Third, the University was awarded its first South Carolina Education Lottery-funded technology grants in the amount of \$1.7 million, the largest amount received by a higher education institution in the state. Of this amount, \$1.2 million is in deferred revenue at June 30, 2003
- ❖ Finally, the University began participation in Division I football by recruiting its first practice team and starting construction on a football facility.

Summary of Net Assets

Condensed Summary of Net Assets				
	<u>2003</u>	<u>2002</u>	<u>Increase/ (Decrease)</u>	<u>Per Cent Change</u>
Assets				
Current assets	\$ 17,251,398	\$ 8,894,547	\$ 8,356,851	94%
Capital assets, net	84,581,757	77,163,548	7,418,209	10%
Other assets	1,613,460	2,146,031	(532,571)	-25%
Total Assets	<u>103,446,615</u>	<u>88,204,126</u>	<u>15,242,489</u>	17%
Liabilities				
Current liabilities	7,235,724	3,300,876	3,934,848	119%
Non-current liabilities	37,669,488	29,803,446	7,866,042	26%
Total Liabilities	<u>44,905,212</u>	<u>33,104,322</u>	<u>11,800,890</u>	36%
Net Assets				
Invested in capital assets, net of debt	48,759,779	49,347,474	(587,695)	-1%
Restricted - non-expendable	103,546	101,260	2,286	2%
Restricted - expendable	5,282,000	42,477	5,239,523	12335%
Unrestricted	4,396,078	5,608,593	(1,212,515)	-22%
Total Net Assets	<u>\$ 58,541,403</u>	<u>\$ 55,099,804</u>	<u>\$ 3,441,599</u>	6%

During fiscal 2003, the total assets of the university increased by \$15.2 million, or 17%. The increase was comprised primarily of an increase in buildings, equipment and construction-in-progress of \$7.4 million and an increase in current assets of \$8.1 million, over \$6 million of which is general obligation bond proceeds restricted for capital construction projects.

Liabilities increased by \$11.8 million. Almost \$8 million of this increase was non-current, largely due to the \$8.75 million general obligation bonds issued in January of 2003. Current liabilities also increased by \$3.9 million. Of this increase, approximately \$1 million is due to an increase in accounts and retainage payable related to construction, and almost \$2 million is in deferred revenue. The University received a lottery-funded technology grant from the state in the amount of \$1.7 million, \$1.2 million of

which was unspent at June 30, 2003. The resulting increase in net assets of \$3.4 million actually represents growth in net capital assets and cash restricted for capital assets of approximately \$4.4 million, an increase in other restricted net assets of \$200,000, and a decrease in unrestricted net assets of \$1.2 million. The University used existing unrestricted net assets at June 30, 2002 during fiscal year 2003 to supplement \$800,000 of the total \$1.5 million shortfall in state appropriated funds for operations. In addition, the University funded start-up costs for a marching band costing approximately \$117,000 and drew down its unrestricted capital project funds by approximately \$300,000 during the year for renovations and deferred maintenance projects.

Highlights of Revenue and Expense Activity

Condensed Summary of Revenues, Expenses and Changes in Net Assets	2003	2002	Increase/ (Decrease)	Per Cent Change
Operating revenues:	\$ 44,461,094	\$ 37,473,069	\$ 6,988,025	19%
Operating expenses:	58,461,346	50,084,272	8,377,074	17%
Operating loss	(14,000,252)	(12,611,203)	(1,389,049)	11%
Net non-operating revenues (expenses)	13,410,067	13,856,575	(446,508)	-3%
Income before other revenues, Expenses, gains and losses	(590,185)	1,245,372	(1,835,557)	-147%
Capital appropriations, grants and gifts	4,031,784	1,415,664	2,616,120	184%
Increase in net assets	3,441,599	2,661,036	780,563	29%
Net Assets, beginning of year	55,099,804	52,438,768	2,661,036	5%
Net Assets, end of year	\$ 58,541,403	\$ 55,099,804	\$ 3,441,599	6%

Tuition revenue, net of discounts and allowances, increased by \$4.4 million in fiscal year 2003. This increase was driven by a 13.6 per cent increase in full-time equivalency enrollment as well as an increase in the cost of tuition of 15.4 per cent for in-state students and 10.1 per cent for out-of-state students. A significant portion of the increase in tuition revenue was paid by a \$1.4 million increase in South Carolina Life Scholarships to students, a \$500,000 increase in federal Pell grants to students, and a \$140,000 increase in other state funded scholarship benefits. In fact, all but \$225,000 of the increase in governmental scholarships and contracts was due to the increase in scholarships to students.

Revenue from auxiliary enterprises held steady, with a slight decrease in vending revenue due to a significantly smaller catering commission than in fiscal year 2002. Interest income tripled because the University invested unspent general obligation bond proceeds.

Operating expenses reflected the increased enrollment, with \$2.75 million more going to temporary and permanent faculty salaries and fringe benefits. Expenditures for classified staff salaries and benefits increased by \$475,000, reflecting the support costs needed for recent enrollment growth. The increased costs related to services and supplies were comprised of a \$600,000 increase in repairs, maintenance and non-capital renovations and almost a \$1 million increase in supplies, supporting new faculty and technology initiatives. Substantial space in the oldest building on campus, the Singleton Building, was vacant for the past year due to leaks and resulting asbestos removal and

renovations. In addition, a major renovation is underway in Atheneum Hall to provide upgraded facilities for University Advancement and offices for the Coastal Educational Foundation.

As mentioned earlier, the state decreased its general appropriation to the University by \$1.5 million in order to deal with its budget shortfalls. However, the state's capital budget was not reduced so the University received capital appropriations revenue of \$3.8 million in state capital improvement bonds which was combined with general obligation bond proceeds to construct the new football facility.

Capital Assets and Debt

Capital assets consisted of \$8.2 million in construction in progress at June 30, 2003 and approximately \$76 million, net of accumulated depreciation, in buildings, land improvements, and equipment. Campus land, booked at historical value, increased by \$30,000 to \$194,000 when title to land under certain buildings was passed to the University from Coastal Educational Foundation. Construction in progress consisted of \$495,000 in renovations to Kearns Hall, Atheneum Hall and the Singleton Building, as well as \$7.6 million new construction on the Brooks Football Stadium. Over \$2.1 million of capital assets were added this year, comprised of \$380,000 in equipment, \$103,000 in vehicles, and \$1.7 million in completed building renovations and land improvements. Major projects completed were renovations to Kimbel Library, Hampton Hall, and the Smith Science Building. Please see Note 5 to the financial statements for further details of capital asset activity.

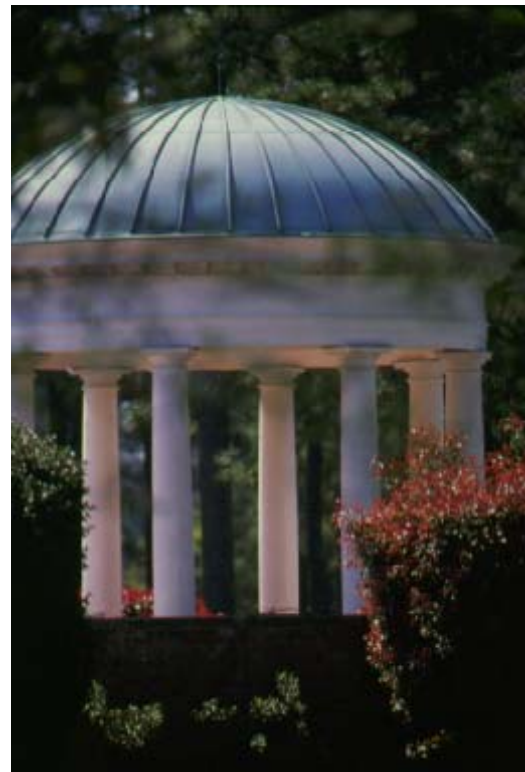
Debt on capital assets is approximately \$35.8 million. While revenue bond debt decreased by \$710,000, new general obligation bonds were issued in the amount of \$8.75 million. Previous general obligation bonds had been retired in fiscal year 2002. Please see Notes 9 and 10 to the financial statements for a description of the nature of the University's debt and related debt-retirement schedules.

Looking Ahead

The enrollment for fall 2003 has increased again, with total headcount increasing by 20% to almost 6,000 students. Much of this growth was fueled by the addition of 517 beds in close proximity to campus by the newly formed CCU Student Housing Foundation. Upperclassmen populated this facility, making room for a large increase in the freshman class. Please see Note 14, Related Parties, for a discussion of the new Student Housing Foundation. The University is also pleased to be recruiting a higher percentage of students from within the state of South Carolina. In the fall of 2001, 38 per cent of new freshmen were from South Carolina. In the fall of 2003, 50 per cent came from in-state. Development of extension facilities along the coast in Georgetown, Litchfield, and Myrtle Beach has also improved accessibility to the University for many students. A committee has been formed to begin the process of deciding how best to plan for future growth in our student body and our facilities.

The year 2004 begins the Fiftieth Anniversary of the University. Plans have been underway for months for events to recognize this milestone, and a major fundraising campaign has been initiated under the guidance of a new vice-president

for University advancement. Gifts of \$2 million and \$1.5 million, respectively, have been pledged for support of the new football facility and the Center for Marine and Wetlands Studies. In addition, there is a new vice-president for student affairs who brings ambitious plans for our growing student body.



COASTAL CAROLINA UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,971,689
Accounts receivable, net	2,538,812
Inventories	278,061
Prepaid expenses	201,524
Restricted current assets:	
Restricted cash and cash equivalents	7,068,400
Loans to students, current portion	192,912
Total current assets	17,251,398
Non-current assets:	
Capital assets, net of accumulated depreciation	84,581,757
Other assets	341,404
Restricted non-current assets:	
Restricted cash and cash equivalents	215,671
Loans to students, net	1,056,385
Total non-current assets	86,195,217
TOTAL ASSETS	103,446,615
 LIABILITIES	
Current liabilities:	
Accounts payable	931,555
Accrued payroll and related liabilities	1,166,946
Intergovernmental payables	320,541
Deferred revenue	1,896,157
Accrued interest payable	253,200
Funds held for others	204,840
Accrued compensated absences, current	127,180
Bonds payable, current	1,005,000
Capital lease payable, current	36,875
Current liabilities payable from restricted current assets:	
Accounts payable	968,604
Retainage payable	324,826
Total current liabilities	7,235,724
Non-Current Liabilities:	
Accrued compensated absences	1,453,526
Bonds payable	34,600,000
Capital lease payable	180,103
Other liabilities	74,436
Non-current liabilities payable from restricted non-current assets:	
Perkins loan program – Federal liability	1,361,423
Total non-current liabilities	37,669,488
TOTAL LIABILITIES	44,905,212
 NET ASSETS	
Invested in capital assets, net of debt	48,759,779
Restricted for:	
Non-expendable	
Research	103,546
Expendable	
Research	30,854
Capital projects	4,996,969
Sponsored projects	254,177
Unrestricted	4,396,078
TOTAL NET ASSETS	\$ 58,541,403

The accompanying notes are an integral part of these statements.

COASTAL CAROLINA UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Operating Revenues	
Student tuition and fees, net of scholarship allowance of \$7,396,543; \$864,426 is pledged for debt service on general obligation bonds	\$ 28,458,464
Governmental scholarships and contracts	9,714,278
Sales and services of educational departments	965,243
Sales and commissions of auxiliary enterprises, net of scholarship allowance of \$1,105,230	4,670,935
Other fees	<u>652,174</u>
Total Operating Revenues	<u>44,461,094</u>
Operating Expenses	
Personnel costs and benefits	37,919,803
Services and supplies	11,750,783
Utilities	2,095,677
Scholarships	4,376,779
Depreciation	<u>2,318,304</u>
Total Operating Expenses	<u>58,461,346</u>
Operating Loss	<u>(14,000,252)</u>
Non-Operating Revenues (Expenses)	
State appropriations	12,579,167
Local appropriations	243,480
State grants	620,695
Gifts	829,985
Investment and endowment income	903,026
Interest on capital asset related debt	(1,678,510)
Other non-operating expenses	<u>(87,776)</u>
Total Non-Operating Revenues (Expenses)	<u>13,410,067</u>
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	(590,185)
Capital appropriations	3,821,281
Capital grants and gifts	<u>210,503</u>
Increase in Net Assets	3,441,599
Net Assets	
Net Assets, beginning of year	<u>55,099,804</u>
Net Assets, end of year	<u>\$ 58,541,403</u>

The accompanying notes are an integral part of these statements.

COASTAL CAROLINA UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

Cash Flows from Operating Activities	
Cash received from students for tuition and fees	\$ 29,394,799
Cash received from governmental scholarships and contracts	10,520,020
Cash paid to suppliers	(13,056,566)
Cash paid to employees	(37,518,943)
Cash paid for scholarship payments to students	(4,376,779)
Cash paid for Perkins loans advanced to students	(314,565)
Cash received from Perkins loan program	245,079
Cash received from Stafford and parent loans on behalf of students	16,501,812
Cash from Stafford and parent loans paid to students or applied to student accounts	(16,501,812)
Cash received in funds held for others	253,526
Cash paid from funds held for others	(56,766)
Cash received from sales and commissions of auxiliary enterprises	
Residence halls and food service	3,975,397
Bookstore	200,316
Vending	314,347
Health service	163,435
Cash received from other receipts	1,071,683
Net Cash Used by Operating Activities	<u>(9,185,017)</u>
 Cash Flows from Non-capital Financing Activities	
State appropriations	12,579,167
Local appropriations	243,480
State grants	1,782,964
Gifts	1,104,985
Net Cash Flows Provided by Non-Capital Financing Activities	<u>15,710,596</u>
 Cash Flows from Capital Financing Activities	
General obligation bond proceeds	8,750,000
Federal capital grants	151,733
State capital grants	3,821,281
Capital gifts	58,770
Purchases of capital assets	(9,572,734)
Principal paid on capital debt and lease	(744,096)
Interest paid on capital debt and lease	(1,567,037)
Net Cash Used by Capital Financing Activities	<u>897,917</u>
 Cash Flows from Investing Activities	
Interest on deposits	813,782
Net Cash Provided by Investing Activities	<u>813,782</u>
 Increase in cash and cash equivalents	 8,237,278
 Cash - beginning of year	 <u>6,018,482</u>
Cash - end of year	\$ <u><u>14,255,760</u></u>

(Continued)

COASTAL CAROLINA UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

Reconciliation of net operating loss to net cash used by operating activities:

Operating loss	\$ (14,000,252)
Depreciation expense	2,318,304
Net proceeds from operation of loan program	(69,486)
Bad debt expense	97,143
Net change in funds held for others	196,760
Change in current assets and liabilities	
Accounts receivable	70,868
Grants and contracts receivable	805,742
Inventories	4,644
Prepaid expenses	(24,691)
Deferred revenue	205,150
Accounts payable	471,020
Retainage payable	338,921
Accrued compensated absences	129,416
Accrued payroll	271,444
Net cash used by operating activities	<u>\$ (9,185,017)</u>

Supplemental disclosure:

Non-cash transactions:	
Operating activities–donated goods and supplies	<u>\$ 110,950</u>

The accompanying notes are an integral part of these statements.

COASTAL CAROLINA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Coastal Carolina University is a public, mid-sized (6,000 students) comprehensive liberal arts institution offering baccalaureate degrees in the traditional liberal arts and sciences, interdisciplinary studies, and professional schools, along with Master's degrees in several specialized areas. The campus primarily serves its immediate five-county area, while honoring its commitment to the citizens of Horry County who founded the University and continue to provide funding to it. Recognizing its responsibility to ensure a student population that is diverse both culturally and geographically, the institution also aggressively recruits statewide, out-of-state, and internationally.

Reporting Entity: The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The University is part of the primary government of the State of South Carolina. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Financial Statements: The financial statement presentation for the University conforms to the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the College's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students, gift pledges and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

COASTAL CAROLINA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Inventories and Prepaid Items: Inventories are carried at the lower of cost or market determined by moving weighted average basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 12 to 50 years for buildings and improvements and land improvements and 3 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Also included are non-operating state grant funds received but not yet expended for their restricted purpose and football tickets sold in advance.

Deposits represent dormitory computer hardware deposits, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Federal Perkins Loans Receivable and Related Liability: The loans receivable on the balance sheet are due to the University under the federal Perkins loan program. This program is funded primarily by the federal government with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a pro-rata share of net earnings on the loans under this program which would have to be repaid to the federal government if the University ceases to participate in the program.

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

COASTAL CAROLINA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Classification of Revenues: The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions. These revenues include gifts and contributions, government appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenue, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance. Scholarships for certain individuals that are required by state law or out-of-state fee differential abatements facilitated by intra-state agreements are recorded as neither tuition and fee revenue nor scholarship allowance.

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities 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 grant-related activities, rental of University space, travel-study courses, research and public service centers, and the physical education center.

COASTAL CAROLINA UNIVERSITY
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Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by housing, bookstore, vending/canteen, food service and health service activities. Transactions between the University and its auxiliary enterprises activities have been eliminated.

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 these earnings exceeds the effective yield on the related tax-exempt debt issued. Governments are exempt from the rebate requirement if they meet certain temporary investment tests, if their bond proceeds are “available construction proceeds”, or if they issue no more than \$5 million in total of all such debt in a calendar year. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Potential rebate liability must be calculated annually, and the actual liability must be paid every five years or at maturity of the debt, whichever is earlier. The University has no rebatable arbitrage liability at June 30, 2003.

Income Taxes: The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

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 and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2—CASH, CASH EQUIVALENTS AND OTHER 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 notes to the statement of net assets amounts:

<u>Statement of Net Assets</u>		<u>Notes</u>	
Cash and Cash Equivalents (current)	\$ 14,009,235	Cash on hand	\$ 36,688
Cash and Cash Equivalents (non-current)	<u>246,525</u>	Deposits held by State Treasurer	<u>14,219,072</u>
Totals	<u>\$ 14,255,760</u>		<u>\$ 14,255,760</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, 2003, 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.

COASTAL CAROLINA UNIVERSITY
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Restricted current assets at June 30, 2003 include restricted cash deposits of \$941,790 for governmental scholarships and contracts, \$6,095,756 for capital projects, and \$30,854 held in endowment earnings. Restricted non-current assets include restricted cash deposits of \$103,546 in endowment funds and \$112,125 in the Federal Perkins loan program.

NOTE 3—ACCOUNTS RECEIVABLE

Current accounts receivable as of June 30, 2003, are summarized as follows:

Student accounts receivable	\$ 401,777	
Less allowance for uncollectibles	(82,250)	
Student accounts receivable, net	319,527	
Third party receivables	165,108	
Accrued interest and endowment income receivable	146,110	
Federal grants and contracts receivable	503,779	
State grants and contracts receivable	216,199	
Other grants and contracts receivable	41,832	
Related party receivables		
Coastal Educational Foundation, Inc.	780,356	
Coastal Carolina Booster Club, Inc.	215,030	
Other receivables	150,871	
Net total receivables	\$ 2,538,812	

Non-current receivables at year-end were as follows:

Loans to students	\$ 1,174,462	
Less allowance for uncollectibles	(118,077)	
Net loans to students	\$ 1,056,385	

Allowances for uncollectible accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

NOTE 4—LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise all of the loans receivable as of June 30, 2003. The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student decides to exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the United States Department of Education. At June 30, 2003, the allowance for uncollectible student loans is valued at \$118,077.

NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 is summarized as follows:

COASTAL CAROLINA UNIVERSITY
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	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 164,138	\$ 30,127	\$ -	\$ 194,265
Construction in progress	675,472	8,244,026	(675,472)	8,244,026
Total capital assets not being depreciated	<u>839,610</u>	<u>8,274,153</u>	<u>(675,472)</u>	<u>8,438,291</u>
Other capital assets:				
Land improvements	1,548,897	244,145	-	1,793,042
Buildings and improvements	87,044,743	1,410,117	-	88,454,860
Equipment	3,886,073	380,720	(62,209)	4,204,584
Vehicles	373,278	102,850	(30,254)	445,874
Total other capital assets at historical cost	<u>92,852,991</u>	<u>2,137,832</u>	<u>(92,463)</u>	<u>94,898,360</u>
Less accumulated depreciation for:				
Land improvements	(494,700)	(105,049)	-	(599,749)
Buildings and improvements	(14,088,046)	(1,869,646)	-	(15,957,692)
Equipment	(1,708,704)	(299,027)	62,209	(1,945,522)
Vehicles	(237,603)	(44,582)	30,254	(251,931)
Total accumulated depreciation	<u>(16,529,053)</u>	<u>(2,318,304)</u>	<u>92,463</u>	<u>(18,754,894)</u>
Other capital assets, net	<u>76,323,938</u>	<u>(180,472)</u>	<u>-</u>	<u>76,143,466</u>
Capital assets, net	<u>\$ 77,163,548</u>	<u>\$ 8,093,681</u>	<u>\$ (675,472)</u>	<u>\$ 84,581,757</u>

Major outlays for capital assets and improvements are capitalized as they are constructed. Interest incurred during the construction phase may be capitalized or expensed depending on, among other things, whether the source of funding specifies that it may be used only for the acquisition of specified qualifying assets, and, in certain cases, the amount of interest earnings on unexpended debt proceeds. During the year ended June 30, 2003, the University expensed \$175,647 of construction interest.

Construction Commitments

The University has active construction projects as of June 30, 2003. The projects include construction of a multi-use athletic facility and renovation of existing campus facilities. At year end, the University's commitments with contractors were \$4,300,378, of which \$1,035,171 was for renovations and \$3,265,207 was for new construction. The University anticipates funding these projects out of current resources, current bond issues, private gifts, student fees, and state capital improvement bond proceeds.

NOTE 6—ENDOWMENTS

The University holds one permanent endowment of \$100,000. The cash and cash equivalents, with a fair market value at June 30, 2003 of \$134,400 are recorded in non-current assets, restricted cash. If a donor has not provided specific instructions otherwise, section 34-6-20 of the South Carolina Code of laws permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) over historical dollar value of the endowment funds. The income earned on the endowment is spent for the purpose for which it was established, faculty research support. It is the University's policy to authorize and spend investment income only to the extent it is available at the most recent June 30. At June 30, 2003, the income available to be spent was \$30,854.

COASTAL CAROLINA UNIVERSITY
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NOTE 7—DEFERRED REVENUE

Deferred revenue at year-end is comprised of tuition prepayments of \$547,418, state grant funds of \$1,242,301, and advance football ticket sales of \$106,438.

NOTE 8—LEASE OBLIGATIONS

The University entered a capital lease purchase agreement for eleven pianos on August 1, 2001, payable in annual installments at an effective interest rate of 8.150%. This lease has remaining non-cancelable terms in excess of one year. The carrying value of assets held under this capital lease totaled \$330,024 as of June 30, 2003. Accumulated depreciation of this equipment totaled \$31,050 at June 30, 2003. Future commitments for the capital lease as of June 30, 2003 are as follows:

<u>Year ending June 30</u>	<u>Capital Lease Payments</u>
2004	\$ 57,286
2005	57,286
2006	57,286
2007	57,286
2008	57,286
Total minimum lease payments	<u>286,430</u>
Less: Interest	58,360
Executory and other costs	11,092
Present value of minimum lease payments	<u>\$ 216,978</u>

The University also leases copiers in accordance with operating leases with fixed annual payments and terms of one year or less. Copier lease payments for the fiscal year were \$164,612.

NOTE 9—BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2003:

	<u>Balance at Inception</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance 30-Jun-03</u>
Revenue Bonds				
Series 1994	\$ 13,895,000	6.125% to 6.875%	6/1/2017	\$ 3,975,000
Series 1999	24,545,000	4.875% to 5.3%	6/1/2026	<u>22,880,000</u>
Total Revenue Bonds				<u>26,855,000</u>
State Institution General				
Obligation Bonds	\$ 8,750,000	3.25% to 4.625%	9/1/2022	<u>8,750,000</u>
Total Bonds Payable				<u>\$ 35,605,000</u>

Revenue bonds are payable from and secured by a pledge of net revenues derived by the University from the operation of the facilities constructed with the bond proceeds, and by a pledge of additional funds, which are all

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available funds and academic fees of the University except for those which are not (i) otherwise designated or restricted; (ii) funds derived from state appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds, if any. The University has also secured insurance contracts for its revenue bonds, which guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of the University.

State institution bonds are general obligation bonds are backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged in the amount of \$100 per full time student and \$10 per graduate credit hour. The legal debt margin for general obligation bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received from tuition and fees for the preceding fiscal year. Tuition bonds fees for the preceding year were \$841,252, which results in a legal annual debt service of June 30, 2003 of \$757,127. There were no annual debt service payments for general obligation bonds for the fiscal year ended June 30, 2003. The first scheduled payment on these bonds of \$607,070 due in fiscal year 2004.

The scheduled maturities of the bonds payable by type are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
<u>Revenue Bonds</u>	2004	745,000	1,438,713	2,183,713
	2005	785,000	1,399,956	2,184,956
	2006	825,000	1,359,063	2,184,063
	2007	875,000	1,315,929	2,190,929
	2008	915,000	1,270,041	2,185,041
	2009-2013	5,365,000	5,567,814	10,932,814
	2014-2018	6,290,000	3,961,475	10,251,475
	2019-2023	6,370,000	2,289,600	8,659,600
	2024-2026	4,685,000	505,355	5,190,355
			<u>\$ 26,855,000</u>	<u>\$ 19,107,946</u>

		<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
<u>General Obligation Bonds</u> <u>(State Institution Bonds)</u>	2004	260,000	347,070	607,070
	2005	270,000	338,457	608,457
	2006	285,000	329,439	614,439
	2007	300,000	319,932	619,932
	2008	315,000	309,939	624,939
	2009-2013	1,850,000	1,364,788	3,214,788
	2014-2018	2,385,000	950,788	3,335,788
	2019-2023	3,085,000	364,785	3,449,785
			<u>\$ 8,750,000</u>	<u>\$ 4,325,198</u>

Defeased Debt

In prior years, the University defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from the University's long-term debt and the trust account assets are not included in these statements. At June 30, 2003, \$7,600,000 of revenue bonds is outstanding defeased debt.

COASTAL CAROLINA UNIVERSITY
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NOTE 10—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ -	\$ 8,750,000	\$ -	\$ 8,750,000	\$ 260,000
Revenue Bonds	27,565,000	-	710,000	26,855,000	745,000
Total Bonds Payable	27,565,000	8,750,000	710,000	35,605,000	1,005,000
Capital Lease Obligation	251,074	-	34,096	216,978	36,875
Perkins loan fund liability	1,318,086	43,337	-	1,361,423	-
Accrued Compensated Absences	1,451,289	253,776	124,360	1,580,705	127,180
Total Long-Term Liabilities	\$ 30,585,449	\$ 9,047,113	\$ 868,456	\$ 8,764,106	\$ 1,169,055

Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Bonds Payable is included in Note 9.

NOTE 11—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2003 are summarized as follows:

Functional Classification	Natural Classification						Total
	Personnel Costs and Benefits	Services and Supplies	Utilities	Scholarships	Depreciation		
Instruction	\$ 19,550,506	\$ 3,196,080	\$ 39,446	\$ -	\$ -	\$ -	22,786,032
Research	441,013	297,899	4,272	-	-	-	743,184
Public Service	845,297	444,300	624	-	-	-	1,290,221
Academic Support	3,045,391	982,316	4,979	-	-	-	4,032,686
Student Services	5,186,995	2,830,029	36,598	-	-	-	8,053,622
Institutional Support	4,396,500	1,152,396	96,298	-	-	-	5,645,194
Plant Operation	3,321,953	1,550,278	1,394,021	-	-	-	6,266,252
Scholarships	253,938	-	-	4,376,779	-	-	4,630,717
Auxiliary Enterprises	878,210	1,297,485	519,439	-	-	-	2,695,134
Depreciation	-	-	-	-	2,318,304	-	2,318,304
Total Expenses	\$ 37,919,803	\$ 11,750,783	\$ 2,095,677	\$ 4,376,779	\$ 2,318,304	\$ -	\$ 58,461,346

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NOTE 12—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. The financial statements of the Retirement Division may also be found on the State Auditor's website: www.osa.state.sc.us. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

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 for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of Coastal Carolina 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.

Employees participating in the SCRS are required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.85 percent, which included a 3.15 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 ending June 30, 2003, 2002, and 2001, were \$1,448,596, \$1,319,320, and \$1,278,296, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, Coastal Carolina University paid employer group-life insurance contributions of \$28,780 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees who are policemen and firemen 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.

Employees participating in the PORS are required to contribute 6.5 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 13.85 percent, which, as for the SCRS, included the 3.15 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2003, 2002, and 2001 were \$36,943, \$33,269, and \$33,327, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$717 and accidental death insurance contributions of \$717 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

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Optional Retirement Program

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 higher education institutions 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 3.15 percent from the employer in fiscal year 2003.

Certain of the Coastal Carolina University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$568,788 (excluding the surcharge) from the University as employer and \$452,017 from its employees as plan members. 5.85 percent of all contributions was remitted to the Retirement Division of the State Budget and Control Board and 11 percent of all contributions was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of Coastal Carolina 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.

Teacher and Employee Retention Incentive

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.

NOTE 13—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 Coastal Carolina 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

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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 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 Coastal Carolina 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.

Coastal Carolina University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$2,227,030 for the year ended June 30, 2003. As discussed in Note 12, the University paid \$852,988 applicable to the 3.15 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 Coastal Carolina 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 14—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. Financial statements for these entities are audited by independent auditors and retained by them. They include (the) Coastal Educational Foundation, Inc., the Horry County Higher Education Commission, the Georgetown County Advisory Board for Coastal Carolina University, the Coastal Carolina Booster Club, Inc. and the Coastal Carolina University Student Housing Foundation, Inc. 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.

To comply with GASB Statement No. 14, *The Financial Reporting Entity*, management annually reviews its relationships with the related parties described above to determine if they should be included as component units in the University's financial statements. The University has excluded these related parties from the reporting entity because it is not financially accountable for them. However, the Government Accounting Standards Board has issued Statement No. 39, *Determining Whether Certain Organizations are Components Units*, which provides additional guidance to determine if an entity meets criteria to be included as a component unit. Accordingly, management will again review its relationship with these entities to determine if some or all of them meet the criteria of a component unit requiring discrete presentation in the University's financial statements beginning in the fiscal year ending June 30, 2004.

Following is a discussion of each of these entities and a summary of significant transactions (if any) between these entities and the University for the year ended June 30, 2003.

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~The Coastal Educational Foundation, Inc.~

The Coastal Educational Foundation Inc. is a separately chartered corporation organized to receive and manage private funds for the benefit and support of the University. The Foundation's activities are governed by its Board of Directors. The Foundation provides funds to the University to support programs such as scholarships and faculty development and to acquire plant and equipment.

The Foundation owns parcels of real property on which portions of the University's campus is located. The Foundation does not charge rent for the use of most of this property. The University, in turn, provides operational and fundraising staff for which it does not charge the Foundation. The University does lease from the Foundation one parcel of land and two buildings under terms of annually renewable leases. During the year, the University paid the Foundation \$23,570 to lease this real property. In addition, land under certain University-owned buildings was transferred in fiscal year 2003 from the Foundation to the University. This land had an historical value of \$30,127.

During the year ended June 30, 2003, the University recorded other non-operating gift revenues of \$512,926 and gifts for capital purchases of \$32,146, received from donors through the Foundation during fiscal 2003. Of those amounts, \$780,356 was receivable at year-end. Also included in the receivable is interest in stock held by the Foundation in the amount of \$275,000, which was receivable at June 30, 2003.

~The Horry County Higher Education Commission~

The Horry County Higher Education Commission was created by Act No. 114 in the 1959 Session of the South Carolina General Assembly. The Commission is composed of sixteen members who are appointed by the Horry County Legislative Delegation. The Commission is responsible for providing resources to meet the goals and carry out the mission of Coastal Carolina University, and to expend funds, including proceeds of bonds issued by Horry County, to provide buildings and equipment for the University. The Commission receives an annual appropriation from Horry County to accomplish these objectives. In fiscal year 2002, the County levied a .7 mill property tax to fund its appropriation to the Commission.

During the year ended June 30, 2003, the University recorded the \$243,480 it received from the Commission as local appropriation revenue. The Commission also made direct payments on behalf of the University totaling \$537,307. Included in this total is debt service on Horry County general obligation bonds of \$526,313.

The University leases real property from the Commission under terms of an annual lease. During fiscal 2003, rent paid was \$24,000, none of which was payable at year-end.

~Georgetown County Advisory Board for Coastal Carolina University~

Georgetown County annually appropriates funds to support the mission of the Georgetown campus of Coastal Carolina University. The Georgetown County Advisory Board for Coastal Carolina University is responsible for the budgeting and distribution of these funds. During the year ending June 30, 2003, the University recorded no revenue from the Advisory Board. Expenditures made on behalf of the University for development of facilities in Georgetown County were approximately \$122,000.

~The Coastal Carolina Booster Club, Inc.~

The Coastal Carolina Booster Club, Inc. (Chanticleer Club) is incorporated under the laws of South Carolina as the University's athletic fund raising organization. Contributions to the Chanticleer Club are used for athletic scholarships, and facility and program development. During the year, the University reported \$194,441 as non-

COASTAL CAROLINA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

operating gift revenue from the Chanticleer Club. Of this amount, \$173,000 was receivable at June 30, 2003, as was an additional \$42,030 which the Club was holding for the University.

~CCU Student Housing Foundation~

The CCU Student Housing Foundation was organized in June 2002 to provide student housing near the campus of the University in Conway, South Carolina. Its initial project includes residence buildings and a clubhouse located approximately one-half mile from the University's main campus. The housing will be available to students in the fall semester of 2003.

The project is being financed by revenue bonds issued by the South Carolina Jobs-Economic Development Authority (JEDA). JEDA has issued two series of variable rate demand revenue bonds, CCU Project Series 2002A, issued in the amount of \$19,880,000, which is tax exempt, and CCU Project Series 2002B, issued in the amount of \$440,000, which is not tax-exempt. Both series have been issued under terms of a Trust Indenture between JEDA and Wachovia Bank, NA, Trustee. JEDA, in turn, has loaned the bond proceeds to the Foundation pursuant to a Loan Agreement, terms of which mirror those of the Trust Indenture.

The Foundation has entered into a management agreement with Coastal Carolina University to market, operate, and maintain the project beginning August 1, 2003. The agreement is for one year and provides that the University will receive as compensation 4 per cent of collected revenues. The agreement also provides that the University will receive an additional 2 per cent of collected revenues after applicable debt ratios and bond covenants are met.

Transactions with the State of South Carolina

The University has significant transactions with the State of South Carolina and various state agencies. The University receives various business, banking and legal services at no cost and purchases various goods and services from State agencies and component units. The amounts of such expenditures for 2003 are not readily available. At June 30, 2003, accounts receivable included \$224,853 due from other state agencies for federal and state sponsored projects, and accounts payable included \$320,541 due to other state agencies, primarily for remittance of employee benefits.

NOTE 15—RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

COASTAL CAROLINA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

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

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Malpractice by counselors and athletic trainers

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation and for officers' and directors' errors and omissions.

NOTE 16—CONTINGENCIES AND LITIGATION

In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

COASTAL CAROLINA UNIVERSITY
SCHEDULE OF INFORMATION ON BUSINESS-TYPE ACTIVITIES REQUIRED FOR THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES IN THE STATE COMPREHENSIVE
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2003

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Charges for services	\$ 44,461,094	\$ 37,473,069	\$ 6,988,025
Operating grants and contributions	1,976,491	1,401,386	575,105
Capital grants and contributions	210,503	1,257,625	(1,047,122)
Less: expenses	<u>(60,227,632)</u>	<u>(51,847,725)</u>	<u>(8,379,907)</u>
Net program revenue (expense)	<u>(13,579,544)</u>	<u>(11,715,645)</u>	<u>(1,863,899)</u>
General revenues:			
Earnings on investments	-	-	-
Special items	-	-	-
Extraordinary items	-	-	-
Contributions to permanent and term endowments	-	-	-
Transfers:			
State appropriations	12,579,167	14,110,923	(1,531,756)
State capital improvement bond proceeds	3,821,281	158,039	3,663,242
Other transfers in from state agencies	<u>620,695</u>	<u>107,719</u>	<u>512,976</u>
Total general revenue and transfers	<u>17,021,143</u>	<u>14,376,681</u>	<u>2,644,462</u>
Changes in net assets	3,441,599	2,661,036	780,563
Net assets - beginning	<u>55,099,804</u>	<u>52,438,768</u>	<u>2,661,036</u>
Net assets - ending	<u>\$ 58,541,403</u>	<u>\$ 55,099,804</u>	<u>\$ 3,441,599</u>

COASTAL CAROLINA UNIVERSITY
SCHEDULE RECONCILING STATE APPROPRIATION PER THE FINANCIAL STATEMENTS
TO STATE APPROPRIATION RECORDED IN STATE ACCOUNTING RECORDS
For the Year Ended June 30, 2003

Following is a reconciliation of the original base budget amount presented in the General Funds Column of Section 5F of Part IA of the 2002-2003 Appropriation Act enacted by the South Carolina General Assembly to state appropriations revenue reported in the financial statements for the year ended June 30, 2003:

Non-capital appropriation:	
Original appropriation	\$ 13,707,541
Less, appropriation reductions	
Mid-year reduction, 5%	(687,909)
Second mid-year reduction, 3.73%	(487,566)
Total reductions	<u>(1,175,475)</u>
State Budget and Control Board allocations for	
Employee base pay increases and related employee benefits	36,787
SC Endowment Incentive Act of 1997	<u>10,314</u>
Total non-capital appropriation	<u>\$ 12,579,167</u>
Capital improvement bond proceeds:	
Capital improvement bond proceeds recognized in current year financial statements	\$ 3,821,281
Less amount receivable at June 30, 2003	<u>(11,281)</u>
Capital improvement bond proceeds per South Carolina Comptroller General's schedule	
of capital improvement draws for the year ended June 30, 2003	<u>\$ 3,810,000</u>

COASTAL CAROLINA UNIVERSITY
SCHEDULE OF TUITION FEES FOR THE YEAR ENDED JUNE 30, 2003
For the Year Ended June 30, 2003

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 year. The applicable amount for the year ended June 30, 2003 is as follows:

Amount of tuition fees as defined by Code Section 59-107-30 for the fiscal year ended June 30, 2003 \$ 841,252

Legal annual debt service limit at June 30, 2003 \$ 757,127