

COASTAL CAROLINA UNIVERSITY

CONWAY, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT AUDITOR'S REPORT

October 16, 1998

The Honorable David M. Beasley, Governor
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, 1998, 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 generally accepted auditing standards. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the 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 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, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Coastal Carolina University
October 16, 1998

As discussed in Note 19 to the financial statements, the University changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

These 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.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

COASTAL CAROLINA UNIVERSITY
 Balance Sheet
June 30, 1998

	CURRENT FUNDS				PLANT FUNDS				TOTALS - (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT FUNDS	UNEXPENDED	RETIREMENT	INVESTMENT IN PLANT	AGENCY FUNDS	
						OF INDEBTEDNESS			
ASSETS									
Cash and Cash Equivalents (Note 15)	\$3,496,291	\$ -	\$ 30,084	\$101,743	\$ 1,857,585	\$ 97,540	\$ -	\$11,171	\$ 5,594,414
Accounts and Other Receivables, Net (Note 13)	429,417	-	-	-	-	-	-	-	429,417
Student Loans Receivable, Net (Note 13)	-	-	1,059,414	-	-	-	-	-	1,059,414
Accrued Interest Receivable	21,924	254	-	-	5,260	4,644	-	-	32,082
Endowment Income Receivable	-	1,411	-	-	-	-	-	-	1,411
Grants and Contracts Receivables:									
Federal	-	532,134	-	-	-	-	-	-	532,134
State	-	57,451	-	-	-	-	-	-	57,451
Other	-	82,781	-	-	24,719	-	-	-	107,500
Capital Improvement Bond									
Proceeds Receivable (Note 3)	-	-	-	-	11,775,000	-	-	-	11,775,000
Inventories (Note 11)	480,395	-	-	-	-	-	-	-	480,395
Prepaid Items	108,839	-	-	-	-	-	-	-	108,839
Due From Restricted Current Funds (Note 12)	424,798	-	-	-	-	-	-	-	424,798
Land	-	-	-	-	-	-	164,138	-	164,138
Buildings and Improvements	-	-	-	-	-	-	48,369,605	-	48,369,605
Improvements Other than Buildings	-	-	-	-	-	-	4,162,961	-	4,162,961
Furniture, Fixtures, and Equipment	-	-	-	-	-	-	2,590,388	-	2,590,388
Library Materials	-	-	-	-	-	-	4,065,391	-	4,065,391
Construction in Progress	-	-	-	-	-	-	1,559,699	-	1,559,699
 Total Assets	 <u>\$4,961,664</u>	 <u>\$674,031</u>	 <u>\$1,089,498</u>	 <u>\$101,743</u>	 <u>\$13,662,564</u>	 <u>\$102,184</u>	 <u>\$60,912,182</u>	 <u>\$11,171</u>	 <u>\$81,515,037</u>

COASTAL CAROLINA UNIVERSITY
Balance Sheet
June 30, 1998

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	PLANT FUNDS			AGENCY FUNDS	TOTALS - (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT		
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable	\$ 383,532	\$ 71,486	\$ 1,424	\$ -	\$ 197,320	\$ -	\$ -	\$ 9,571	\$ 663,333
Retainage Payable	-	-	-	-	15,203	-	-	-	15,203
Accrued Interest Payable	-	-	-	-	-	85,067	-	-	85,067
Accrued Payroll and Related Liabilities	696,533	9,288	-	-	-	-	-	-	705,821
Accrued Compensated Absences and Related Liabilities	1,163,689	-	-	-	-	-	-	-	1,163,689
Unearned Student Revenues	296,814	-	-	-	-	-	-	-	296,814
Unearned Other Revenues	455	-	-	-	-	-	-	-	455
Due to Unrestricted Current Funds (Note 12)	-	424,798	-	-	-	-	-	-	424,798
Bonds Payable (Note 4)	-	-	-	-	-	-	14,270,000	-	14,270,000
Note Payable (Note 5)	195,947	-	-	-	-	-	-	-	195,947
Funds Held for Others	-	-	-	-	-	-	-	1,600	1,600
Total Liabilities	2,736,970	505,572	1,424	-	212,523	85,067	14,270,000	11,171	17,822,727
Fund Balances:									
Unrestricted									
Unrestricted, Unallocated	2,224,694	-	-	-	-	-	-	-	2,224,694
Unexpended, Designated	-	-	-	-	1,009,272	-	-	-	1,009,272
Restricted									
Contracts and Grants	-	168,459	-	-	-	-	-	-	168,459
U. S. Government Grants Refundable	-	-	1,088,074	-	-	-	-	-	1,088,074
Endowment	-	-	-	101,743	-	-	-	-	101,743
Unexpended	-	-	-	-	12,440,769	-	-	-	12,440,769
Retirement of Indebtedness	-	-	-	-	-	17,117	-	-	17,117
Net Investment in Plant	-	-	-	-	-	-	46,642,182	-	46,642,182
Total Fund Balances	2,224,694	168,459	1,088,074	101,743	13,450,041	17,117	46,642,182	-	63,692,310
Total Liabilities and Fund Balances	\$4,961,664	\$674,031	\$1,089,498	\$101,743	\$13,662,564	\$102,184	\$60,912,182	\$11,171	\$81,515,037

The accompanying notes are an integral part of this financial statement.

COASTAL CAROLINA UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			TOTALS- (MEMORANDUM ONLY)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>LOAN FUNDS</u>	<u>ENDOWMENT FUNDS</u>	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$38,423,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$38,423,457
State Appropriations - Restricted (Note 2)	-	433,505	-	-	-	-	-	433,505
U.S. Government Advances	-	-	63,634	-	-	-	-	63,634
Federal Grants and Contracts - Restricted	-	3,332,999	-	-	9,187	-	207,500	3,549,686
State Grants and Contracts - Restricted	-	240,816	-	-	-	-	-	240,816
Local Grants and Contracts - Restricted	-	133,853	-	-	-	-	-	133,853
Private Gifts, Grants and Contracts - Restricted	-	394,808	-	-	24,719	-	33,600	453,127
Interest Income - Restricted	-	1,783	824	1,743	42,052	17,788	-	64,190
Reimbursement of Principal and Interest on Loans Canceled	-	-	11,182	-	-	-	-	11,182
Endowment Investment Income - Restricted	-	6,778	-	-	-	-	-	6,778
Interest on Student Loans Receivable	-	-	15,001	-	-	-	-	15,001
Expended for Plant Facilities (Including \$696,768 Charged to Current Funds Expenditures)	-	-	-	-	-	-	1,638,661	1,638,661
Retirement of Indebtedness	-	-	-	-	-	-	520,000	520,000
Student Tuition and Fees	-	-	-	-	-	574,413	-	574,413
Other Additions	-	-	1,748	-	-	-	-	1,748
Total Revenues and Other Additions	<u>38,423,457</u>	<u>4,544,542</u>	<u>92,389</u>	<u>1,743</u>	<u>75,958</u>	<u>592,201</u>	<u>2,399,761</u>	<u>46,130,051</u>
Expenditures and Other Deductions:								
Educational and General Expenditures	33,068,675	4,403,432	-	-	-	-	-	37,472,107
Auxiliary Enterprises Expenditures	3,139,114	-	-	-	-	-	-	3,139,114
Indirect Cost Recoveries Remitted to the State General Fund	8,305	-	-	-	-	-	-	8,305
Indirect Costs Recovered	-	203,884	-	-	-	-	-	203,884
Loan Cancellations and Write-Offs	-	-	68,547	-	-	-	-	68,547
Administrative and Collection Costs	-	-	20,611	-	-	5,868	-	26,479
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$34,285)	-	-	-	-	976,178	-	-	976,178
Retirement of Indebtedness	-	-	-	-	-	520,000	-	520,000
Interest on Indebtedness	-	-	-	-	-	936,465	-	936,465
Disposal of Plant Facilities	-	-	-	-	-	-	132,295	132,295
Refunded to Grantors	-	-	2,771	-	-	-	-	2,771
Total Expenditures and Other Deductions	<u>36,216,094</u>	<u>4,607,316</u>	<u>91,929</u>	<u>-</u>	<u>976,178</u>	<u>1,462,333</u>	<u>132,295</u>	<u>43,486,145</u>

COASTAL CAROLINA UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1998

	<u>CURRENT FUNDS</u>				<u>PLANT FUNDS</u>			TOTALS- (MEMORANDUM ONLY)
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	LOAN <u>FUNDS</u>	ENDOWMENT <u>FUNDS</u>	<u>UNEXPENDED</u>	RETIREMENT OF <u>INDEBTEDNESS</u>	INVESTMENT <u>IN PLANT</u>	
Transfers Among Funds - Additions/(Deductions):								
Mandatory :								
Principal and Interest	(1,120,984)	-	-	-	-	1,120,984	-	-
Loan Fund Matching Grant	(21,211)	-	21,211	-	-	-	-	-
Nonmandatory: (Note 7)								
Transfer for Capital Projects	-	-	-	-	248,000	(248,000)	-	-
Transfer from Loan Funds	308	-	(308)	-	-	-	-	-
Transfers from Unrestricted Current Funds	(688,683)	-	-	-	688,683	-	-	-
Total Transfers	<u>(1,830,570)</u>	<u>-</u>	<u>20,903</u>	<u>-</u>	<u>936,683</u>	<u>872,984</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) for the Year	376,793	(62,774)	21,363	1,743	36,463	2,852	2,267,466	2,643,906
Fund Balances, July 1, 1997	<u>1,847,901</u>	<u>231,233</u>	<u>1,066,711</u>	<u>100,000</u>	<u>13,413,578</u>	<u>14,265</u>	<u>44,374,716</u>	<u>61,048,404</u>
Fund Balances, June 30, 1998	<u>\$ 2,224,694</u>	<u>\$168,459</u>	<u>\$1,088,074</u>	<u>\$101,743</u>	<u>\$13,450,041</u>	<u>\$ 17,117</u>	<u>\$46,642,182</u>	<u>\$63,692,310</u>

The accompanying notes are an integral part of this financial statement.

COASTAL CAROLINA UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1998

	1998		
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Revenues:			
Student Tuition and Fees	\$19,760,040	\$ -	\$19,760,040
State Appropriations (Note 2)	11,899,988	431,551	12,331,539
Federal Grants and Contracts	253,277	3,153,861	3,407,138
State Grants and Contracts	99,706	287,107	386,813
Local Grants and Contracts	298,129	84,528	382,657
Private Gifts, Grants and Contracts	328,396	441,664	770,060
Endowment Income	-	3,824	3,824
Interest Income	175,291	897	176,188
Sales and Services of Educational Departments	810,828	-	810,828
Sales and Services of Auxiliary Enterprises	4,570,824	-	4,570,824
Parking Fees and Fines	100,891	-	100,891
Other Sources	126,087	-	126,087
Total Current Revenues	<u>38,423,457</u>	<u>4,403,432</u>	<u>42,826,889</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	14,207,837	194,382	14,402,219
Research	198,955	856,202	1,055,157
Public Service	196,867	599,837	796,704
Academic Support	2,833,973	-	2,833,973
Student Services	4,526,148	68,321	4,594,469
Institutional Support	4,322,026	-	4,322,026
Operation and Maintenance of Plant	3,099,806	-	3,099,806
Scholarships and Fellowships	3,683,063	2,684,690	6,367,753
Total Educational and General Expenditures	<u>33,068,675</u>	<u>4,403,432</u>	<u>37,472,107</u>
Mandatory Transfer for:			
Loan Fund Matching Grant	21,211	-	21,211
Total Educational and General	<u>33,089,886</u>	<u>4,403,432</u>	<u>37,493,318</u>
Auxiliary Enterprises:			
Expenditures	3,139,114	-	3,139,114
Mandatory Transfers for Principal and Interest	1,120,984	-	1,120,984
Total Auxiliary Enterprises	<u>4,260,098</u>	<u>-</u>	<u>4,260,098</u>
Total Expenditures and Mandatory Transfers	<u>37,349,984</u>	<u>4,403,432</u>	<u>41,753,416</u>
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	308	-	308
Nonmandatory Transfers Out	(688,683)	-	(688,683)
Excess (Deficiency) of Restricted Receipts Over Transfers to Revenues	-	(62,774)	(62,774)
Indirect Cost Recoveries Remitted to the State General Fund	(8,305)	-	(8,305)
Total Other Transfers and Additions/ (Deductions)	<u>(696,680)</u>	<u>(62,774)</u>	<u>(759,454)</u>
Net Increases (Decreases) in Fund Balances	<u>\$ 376,793</u>	<u>\$ (62,774)</u>	<u>\$ 314,019</u>

The accompanying notes are an integral part of this financial statement.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Coastal Carolina University conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Industry Audit Guide Audits of Colleges and Universities* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard - setting body for GAAP for all state governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. 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, 1998

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 revenue and expenses.

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, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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 and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting

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 so 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 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.

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. 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. Unrestricted gifts are recognized as revenue when received and other unrestricted resources 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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 enterprises 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 \$1,615,504 at June 30, 1998.

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.

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 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, 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 included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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.

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 of 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 up to the maximum, 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 gifts. 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

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. Once a project reaches 90 percent completion, the costs are capitalized in the appropriate asset accounts in investment in plant.

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 major additions and renovations to plant facilities; qualifying equipment with a unit value in excess of \$5,000 and a useful life 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, where applicable, is removed from the investment in plant subgroup. The values of library materials 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 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. During the current year, the University had no interest cost qualifying for capitalization.

Unearned Student Revenues

In unrestricted current funds, unearned student revenues consist primarily of student tuition and fees, room and board, and meal plan receipts collected in advance for the summer II 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges of Gifts

The University recognizes revenue from pledges when collected. Because it is not practicable to estimate the net realizable value of the uncollected pledges, pledges receivable are not reported in the financial statements. Most pledges of gifts to benefit the University are made to one of the two related parties as described in Note 16 to the financial statements.

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.

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 continuing education services, student activities, and cultural events.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefitting more than one accounting period are allocated among accounting periods. For the University, 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

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. Investments in the pool are recorded 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. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, 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 University has no rebatable arbitrage liability at June 30, 1998.

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.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of Exhibits A and B 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

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 18F of Part IA of the 1998 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, 1998:

Original Appropriation	\$11,223,391
State Budget and Control Board Allocations for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.13.)	170,574
Appropriation Allocations from the State	
Commission on Higher Education:	
From Supplemental Appropriations of 1997	
Surplus State Revenues for Additional Formula Funding (Part III of the 1998 Appropriation Act)	130,273
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1997 Joint Resolution R223, H3402)	299,752
For Palmetto Fellows Scholarships	15,000
From the Children's Education Endowment Fund for Need-Based Grants	418,505
For Access and Equity Desegregation Funding (Proviso 18A.7.)	4,287
For Performance Funding	<u>71,711</u>
Revised Appropriations - Legal Basis	12,333,493
Less: Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds	<u>433,505</u>
Funding Reported in Unrestricted Current Funds	<u>\$11,899,988</u>

The June 1995 Joint Resolution which authorized fiscal year 1994-95 supplemental appropriations to the University for specified purposes for a Humanities Building capital project also provided that unexpended funds appropriated pursuant thereto were approved to be carried forward to succeeding fiscal years and expended for the same purposes. Accordingly, the University brought forward to fiscal year 1998 an unexpended balance of \$300,000 appropriated for the Humanities Building architectural and engineering fees. The University also carried forward to fiscal year 1999 this balance of \$300,000, which is reported in the unexpended plant funds subgroup of the plant funds as restricted fund balance.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

In addition to the state appropriations revenue, the University received \$1,764 from the State Commission on Higher Education for the University's Higher Education Awareness Program which is reported as state grants and contracts revenue in the unrestricted current funds group.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 1997, the State authorized funds for the Humanities Building to provide improvements and expansion of classroom and faculty office facilities 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, 1998, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn</u>	<u>Balance Authorized June 30, 1998</u>
111 of 1997	\$ <u>11,775,000</u>	\$ <u>-</u>	\$ <u>11,775,000</u>

Of the balance available at June 30, 1998, the University is scheduled to withdraw funds after July 1, 1998, in accordance with the draw schedule established by the Joint Bond Review Committee (JBRC) and approved by the State Budget and Control Board.

NOTE 4 - BONDS PAYABLE

At June 30, 1998, bonds payable consisted of the following, which are reported in the investment in plant funds subgroup:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1998 Balance</u>
State Institution Bonds - Series 1993C	4.1% to 4.5%	April 1, 2002	\$ 1,230,000
Auxiliary Facilities Revenue Bonds - Series 1994	6.125% to 6.875%	June 1, 2026	<u>13,040,000</u>
Total			<u>\$14,270,000</u>

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE (CONTINUED)

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 purchased a bond insurance policy in favor of the bond trustee for the auxiliary facilities revenue bonds. 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. Consequently, the University is not required to maintain a debt service reserve fund for the auxiliary facilities revenue bonds.

For the revenue bonds 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. 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.

Beginning June 1, 2004, the 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.

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, 1998, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 265,000	\$ 860,978	\$ 1,125,978
2000	275,000	844,746	1,119,746
2001	285,000	827,903	1,112,903
2002	310,000	810,446	1,120,446
2003	330,000	791,459	1,121,459
2004 through 2026	<u>11,575,000</u>	<u>9,819,674</u>	<u>21,394,674</u>
Total Obligations	<u>\$13,040,000</u>	<u>\$13,955,206</u>	<u>\$26,995,206</u>

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 4 - BONDS PAYABLE (CONTINUED)

Amounts as of June 30, 1998, 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>
1999	\$ 290,000	\$ 53,275	\$ 343,275
2000	300,000	41,385	341,385
2001	315,000	28,485	343,485
2002	<u>325,000</u>	<u>14,625</u>	<u>339,625</u>
Total Obligations	<u>\$1,230,000</u>	<u>\$137,770</u>	<u>\$1,367,770</u>

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 expenditures related to the bonds payable as follows for the year ended June 30, 1998.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
State Institution	\$275,000	\$ 61,732
Auxiliary Facilities Revenue	<u>245,000</u>	<u>874,733</u>
Total	<u>\$520,000</u>	<u>\$936,465</u>

NOTE 5 - NOTE PAYABLE

Proceeds from a bank note in the amount of \$233,493 dated, January 30, 1998, were used to purchase computer hardware, software, scanners, and printers. The note, collateralized by these items with unit values less than \$5,000, is recorded in unrestricted current funds. The note bears an interest rate of 4.277% and matures 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. Amounts including interest required to complete payment of the note as of June 30, 1998, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 75,887	\$ 7,174	\$ 83,061
2000	79,186	3,876	83,062
2001	<u>40,874</u>	<u>657</u>	<u>41,531</u>
Total Obligations	<u>\$195,947</u>	<u>\$11,707</u>	<u>\$207,654</u>

Payments for fiscal year 1998 were \$41,531, of which \$3,985 represented interest.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 6 - LEASE OBLIGATIONS

The University has entered into various cancelable operating leases for the use of office equipment, primarily copying machines, and for automobiles. The lease agreements, which may be terminated by either party, expire in various fiscal years from 1999 through 2002. 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.

Total operating lease expenditures in 1998 were \$153,408 for copying machines, and \$35,275 for automobiles. The University reports these costs in the applicable current funds functional expenditure categories.

On July 1, 1997, the University entered into 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, 1998, 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 - NONMANDATORY 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 1998, the University transferred \$248,000 for that purpose which is reported as a nonmandatory transfer from the retirement of indebtedness subgroup, and the unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup 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 \$457,587 within that 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, 1998

NOTE 7 - NONMANDATORY TRANSFERS (CONTINUED)

In addition, during fiscal year 1998, the University recorded other interfund operating transfers as follows:

<u>From</u>	<u>FUND</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current		Unexpended Plant	\$688,683	Funding of Construction Projects
Loan Funds		Unrestricted Current	\$ 308	Reimbursement of Administrative Costs

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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 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. 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 8 - PENSION PLANS (CONTINUED)

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 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, 1998, 1997, and 1996, were \$1,055,904, \$1,014,040, and \$939,819, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$20,978 in the current fiscal year at the rate of .15 percent of compensation.

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.

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 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1998, 1997, and 1996, were \$27,554, \$26,987, and \$26,349, respectively, and equalled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$535 and accidental death insurance contributions of \$535 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 contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 8 - PENSION PLANS (CONTINUED)

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 unfunded 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.

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 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 1.916 percent from the employer in fiscal year 1998.

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 \$270,594 (excluding the surcharge) from the University as employer and \$215,042 from its employees as plan members. In addition, the University paid \$5,376 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

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 18,000 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 \$1,089,449 for the year ended June 30, 1998. As discussed in Note 8, the University paid \$341,758 applicable to the 1.916 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 accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 10 - DEFERRED COMPENSATION PLANS (CONTINUED)

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 11- INVENTORIES

Inventories for internal use are valued at cost, using the first-in, first-out and weighted average cost determination methods. Bookstore and 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, 1998:

<u>Category</u>	<u>Method</u>	
Bookstore	First-in, first-out	\$329,917
Campus Central Supply	First-in, first-out	31,502
Postage	First-in, first-out	3,952
Vending	First-in, first-out	12,827
Maintenance Supply	Weighted average	<u>102,197</u>
		<u>\$480,395</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 in other funds. At June 30, 1998, unrestricted current funds reported a \$424,798 interfund receivable balance which was due from restricted current funds.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
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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, 1998, the allowances for student loans receivable in loan funds and student accounts receivable in unrestricted current funds are valued at \$108,972 and \$41,848, respectively.

An analysis of accounts receivable and student loans receivable at June 30, 1998, is as follows:

	Unrestricted Current <u>Funds</u>	Loan <u>Funds</u>
Student Accounts Receivable	\$107,405	\$ -
Student Loans Receivable	-	1,168,386
Bookstore Purchase Credits Receivable	172,073	-
Coastal Educational Foundation Receivable - Note 16	19,717	-
Outside Scholarships Receivable	99,459	-
Vending Commissions Receivable	30,469	-
Salary Reimbursement Receivable	10,000	-
NCAA Women's Softball Regional Round Receivable	9,269	-
Mapping Fee Receivable	7,135	-
Housing Fees Receivable	4,605	-
Other Receivables	<u>11,133</u>	<u>-</u>
Subtotal	471,265	1,168,386
Less: Allowances for Doubtful Accounts	<u>(41,848)</u>	<u>(108,972)</u>
Student Loans and Accounts and Other Receivables - Net	<u>\$429,417</u>	<u>\$1,059,414</u>

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 three years at an estimated total cost of \$21,617,348. Of the total cost, approximately \$13,694,767 is unexpended at June 30, 1998. Of the total expended through June 30, 1998, the University has capitalized substantially complete and in use projects costing \$6,356,587 in the applicable plant asset categories. Of the unexpended balance at June 30, 1998, the University had remaining commitment balances of

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
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NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

approximately \$210,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Major capital projects at June 30, 1998, 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>
Water Management System	\$ 450,000	\$ 69,592
Humanities Building	12,883,261	860,264
Wheelwright Auditorium Restoration	240,000	53,666
Student Center Renovation, First Floor	200,000	181,643
Nichols Tennis Facility	40,000	24,719
Environmental Chemistry Lab Renovation	500,000	10,580
Williams Brice Physical Education Center Improvements	425,000	344,452
Human Resources Building Renovation	<u>95,000</u>	<u>21,078</u>
Total	<u>\$14,833,261</u>	<u>\$1,565,994</u>

The amount expended includes only capitalized costs. There were no noncapitalized expenditures or capitalized interest on these projects. The amount expended includes \$6,295 for equipment capitalized when purchased.

At June 30, 1998, the University had in progress another capital project which is not to be capitalized when completed. This project is for renovations to an existing facility. Costs incurred to date on this project amount to \$3,979 at June 30, 1998, and the estimated cost to complete is \$26,021. At June 30, 1998, the University had no remaining commitments related to this project.

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

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	\$5,594,414	Cash on Hand	\$ 12,799
		Deposits Held by State Treasurer	<u>5,581,615</u>
	<u>\$5,594,414</u>		<u>\$5,594,414</u>

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 15 - DEPOSITS (CONTINUED)

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, 1998, 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.

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 \$19,531 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, management reviewed 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. 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

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 16 - RELATED PARTIES (CONTINUED)

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 \$453,825 from the Foundation which is reported as private gifts, grants and contracts as follows:

Unrestricted Current Funds	\$192,921
Restricted Current Funds	236,185
Unexpended Plant Funds	<u>24,719</u>
Total	<u>\$453,825</u>

During the year ended June 30, 1998, the University paid the Foundation \$200 under a lease for computer equipment. The lease was for a one-year period ending June 30, 1998.

Included in unrestricted current funds private gifts, grants, and contracts revenue for the year and in accounts receivable at June 30, 1998, is \$19,717 due from the Foundation for special projects and workshops. Restricted current funds grants and contracts receivable - other at June 30, 1998, reports \$62,218 due from the Foundation for scholarships. This amount is also included in restricted current funds revenue reported as private gifts, grants and contracts. The unexpended plant funds subgroup of the plant funds grants and contracts receivable - other at June 30, 1998, reports \$24,719 due from the Foundation for the Nichols Tennis Facility project. This amount is also included in the unexpended plant funds subgroup reported as private gifts, grants and contracts.

During the year ended June 30, 1998, the Foundation acted in the capacity of fiscal agent for the Waccamaw Math and Science Hub located at Coastal Carolina University. As such, the Foundation obtained on behalf of the University federal and state grant awards for this project funded jointly by the National Science Foundation and the South Carolina State Department of Education. The University recorded \$110,276 of federal grants and contracts revenue and \$87,472 of state grants and contracts revenue in the restricted current funds for the grant program. The balances due from the Foundation for the grant program at June 30, 1998, were \$39,137 for federal grants and contracts receivable and \$50,790 for state grants and contracts receivable.

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 received \$100,744, which is reported as private gifts, grants and contracts in the unrestricted current funds.

Audited financial statements of the Coastal Educational Foundation, Inc. and the CINO Club are not available for the fiscal year ended June 30, 1998.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

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 Governor's Office.

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 1998 expenditures applicable to these transactions are not readily available.

The University purchased various goods and services from other State agencies during fiscal year 1998. The University paid \$5,508 to the Department of Corrections for furniture refurbishing, \$46,881 to Horry-Georgetown Technical College for golf management program services, and \$18,292 to the University of South Carolina for long distance communications services. The University passed certain federal grant funds to other State agencies, primarily to the University of South Carolina, the Medical University of South Carolina, and the College of Charleston.

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. The University recorded \$28,500 of state grants and contracts revenue and related expenditures in the instruction functional category in unrestricted current funds. 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, and Medical University of South Carolina.

NOTE 18 - CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 1998 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 19 - ACCOUNTING CHANGE

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The University has not restated its beginning fund balances as of July 1, 1997 for changes resulting from adoption of Statement No. 31 because the amounts are immaterial. As a result of this accounting change, interest income and endowment income reported includes interest, realized gains (losses) and unrealized gains (losses).

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 accord 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. 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
June 30, 1998

NOTE 20 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

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; and
7. Medical malpractice claims against covered employees.

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.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, policy limits, underinsurance, 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, 1998, 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, 1998, 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.

COASTAL CAROLINA UNIVERSITY
Notes to Financial Statements
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NOTE 20 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

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 1998 related to housing operations were \$2,624,611 and \$1,556,500, 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 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.