

**COASTAL CAROLINA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

revenues primarily from grant-related activities, rental of University space, travel-study courses, research and public service centers, and the physical education center.

**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, 2004.

**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. The Foundation is exempt from income tax under the provisions of Internal Revenue Code Section 501(c)(3). No provision for income taxes has been made.

**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.

**Significant Component Unit Accounting Policies**

Coastal Educational Foundation's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as unrestricted, temporarily restricted or permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. Permanently restricted net assets are assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, all or part of the income earned on any related investments may be used for general or specific purposes.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Expenses are reported as decreases in unrestricted, undesignated net assets as appropriate. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted, undesignated or unrestricted, designated net assets unless their use is restricted by explicit donor stipulation.

Unconditional promises to give due in the next year are recorded as received at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to