FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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September 26, 2005

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the basic financial statements of Francis Marion University and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, for the fiscal year ended June 30, 2005, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 2005

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Francis Marion University, (the University) as of and for the year ended June 30, 2005 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 basic financial statements based on our audit. We did not audit the financial statements of the Francis Marion University Foundation (the Foundation). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University and its component unit. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2005, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

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In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 21 to the financial statements, management of the Foundation discovered certain errors in the recording of liabilities in the financial statements for the year ended June 30, 2004. The other auditors audited the adjustment that was applied to restate the 2004 financials and in their opinion, the adjustments are appropriate and have been properly applied.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2005, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should and should be considered in assessing the results of our audit.

Rogers + Lalan, PA

August 24, 2005

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2005 with selected comparative information for the year ended June 30, 2004. This discussion is presented along with financial statements and related footnote disclosures of the University and its component unit. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component unit are available from management of the component unit. The report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement and its purpose is to present to the readers of the financial statements a fiscal snapshot of Francis Marion University. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets assets (assets minus liabilities). Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

Condensed Statement of Net Assets

	2005	2004	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	$ 10,341,237	$ 9,384,586	$ 956,651	10.19%
Capital assets, net of accumulated depreciation	25,223,892	26,199,606	(975,714)	(3.72%)
Other noncurrent assets	3,366,667	3,217,595	149,072	4.63%
Total assets	38,931,796	38,801,787	130,009	0.34%
Liabilities:				
Current liabilities	2,910,645	2,598,786	311,859	12.00%
Noncurrent liabilities	5,379,645	5,435,331	(55,686)	(1.02%)
Total liabilities	8,290,290	8,034,117	256,173	3.19%
Net assets:				
Invested in capital assets, net of debt	25,052,028	25,930,309	(878,281)	(3.39%)
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	1,352,860	1,241,388	111,472	8.98%
Unrestricted	4,036,618	3,395,973	640,645	18.86%
Total net assets	$ 30,641,506	$ 30,767,670	$ (126,164)	(0.41%)

The Statement of Net Assets shows a slight increase in assets and an increase in liabilities resulting in a decrease in net assets. Significant changes on the Statement of Net Assets are as follows:

- Total assets of the University increased by approximately $130,000.
- The increase in current assets and unrestricted net assets result from a rise in unrestricted cash and receivables for auxiliary reimbursements and rent of the housing facility.
- The decline in capital assets indicates that disposals and depreciation exceed the investment in assets.
- Total liabilities increased by approximately $256,000.
- Current liabilities increased due to an increase in the amount of accounts payable and deposits held for others.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

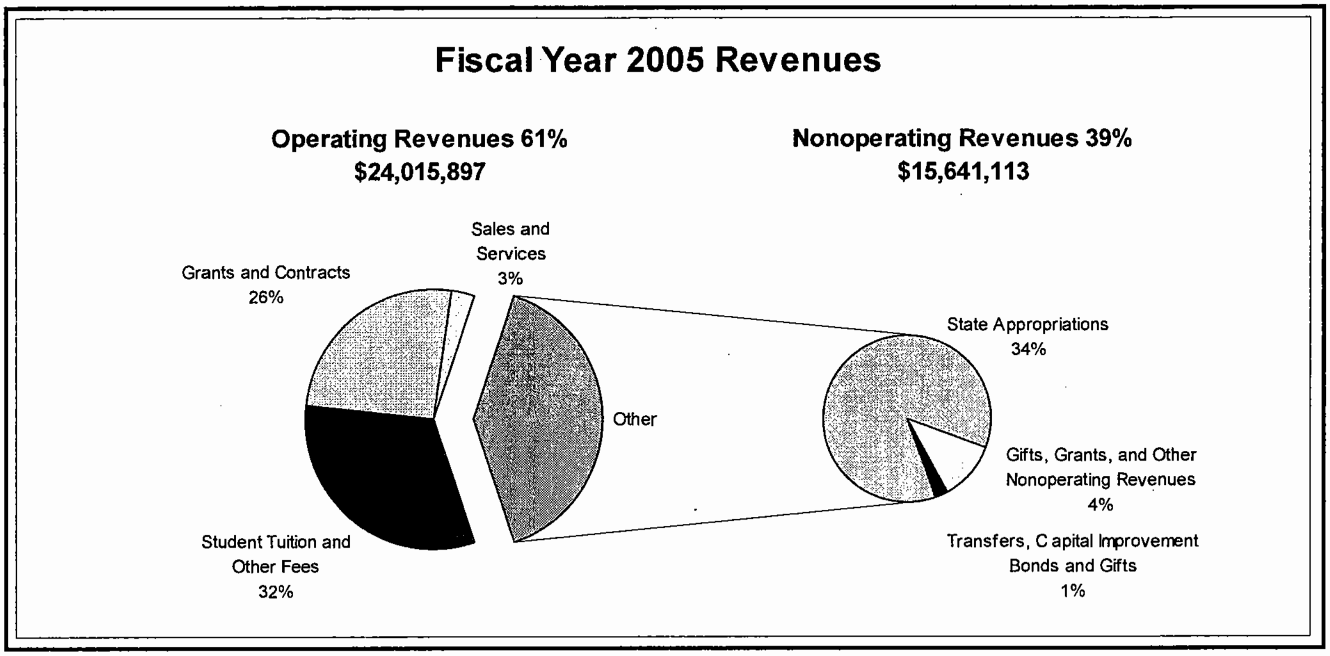
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2005	2004	Increase/ (Decrease)	Percent Change
Operating revenues	24,015,897	23,681,939	333,958	1.41%
Operating expenses	39,664,997	38,207,118	1,457,879	3.82%
Operating loss	(15,649,100)	(14,525,179)	(1,123,921)	7.74%
Nonoperating revenues	15,254,365	14,131,481	1,122,884	7.95%
Nonoperating expenses	118,177	212,197	(94,020)	(44.31%)
Net nonoperating revenues (expenses)	15,136,188	13,919,284	1,216,904	8.74%
Income (loss) before other revenues, expenses, gains, losses, and transfers	(512,912)	(605,895)	92,983	15.35%
Other revenues, expenses, gains, losses, and transfers	386,748	(161,749)	548,497	339.10%
Decrease in net assets	(126,164)	(767,644)	641,480	83.56%
Net assets - beginning of year	30,767,670	31,535,314	(767,644)	(2.43%)
Net assets - end of year	$ 30,641,506	$ 30,767,670	$ (126,164)	(0.41%)

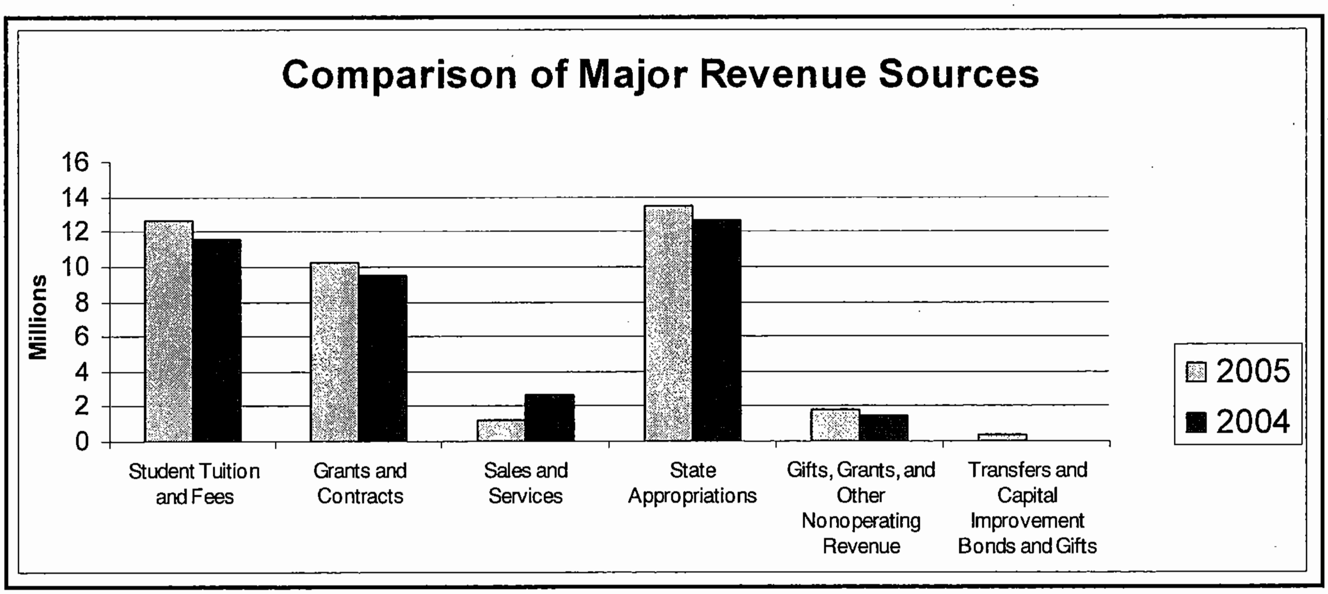
The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by approximately $334,000. The net tuition increase of about $1,101,000 and the approximately $658,000 increase in federal and state grants were mitigated by the outsourcing of housing.
- The increase in nonoperating revenue is due to the $811,000 increase in state appropriations and moderate increases in state grants, gifts, and investment income.
- A net gain in other revenues was realized in 2005 since a loss on early refunding of bonds occurred in 2004. A capital gift of approximately $369,000 was received from the Foundation to construct the nursing building.

The following graph presents the sources of revenue used to fund the University for the year.

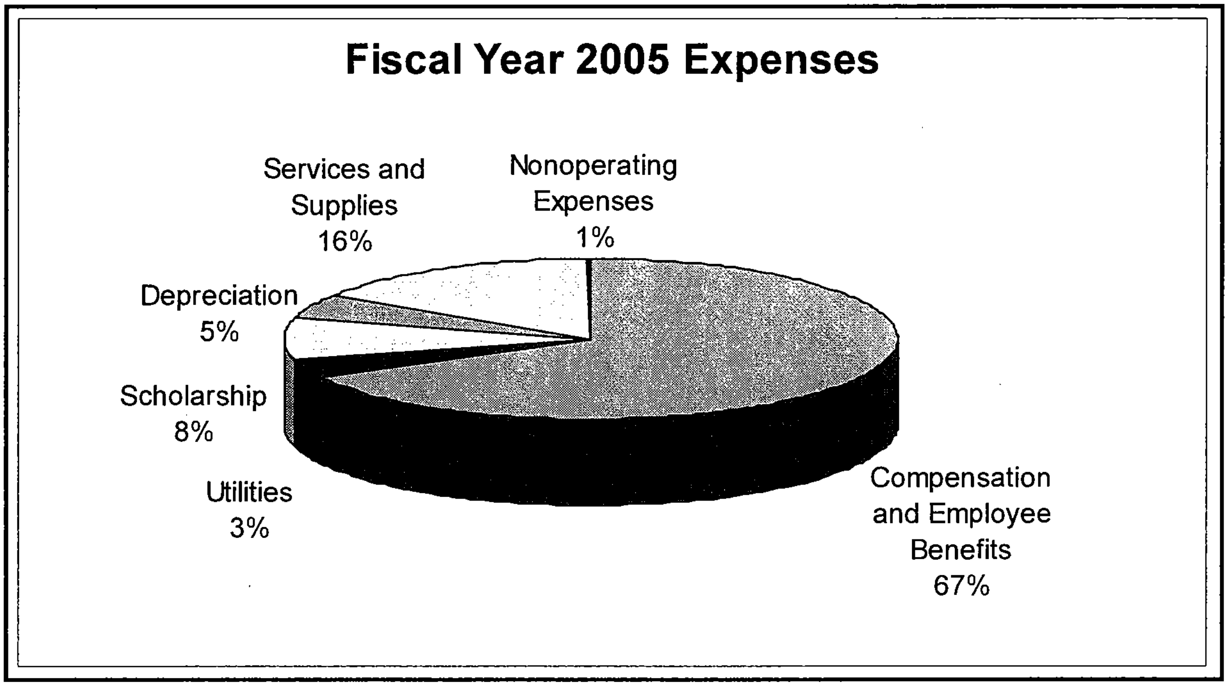


The graph below, comparing 2005 revenue sources to 2004, illustrates the changes in major revenue sources.

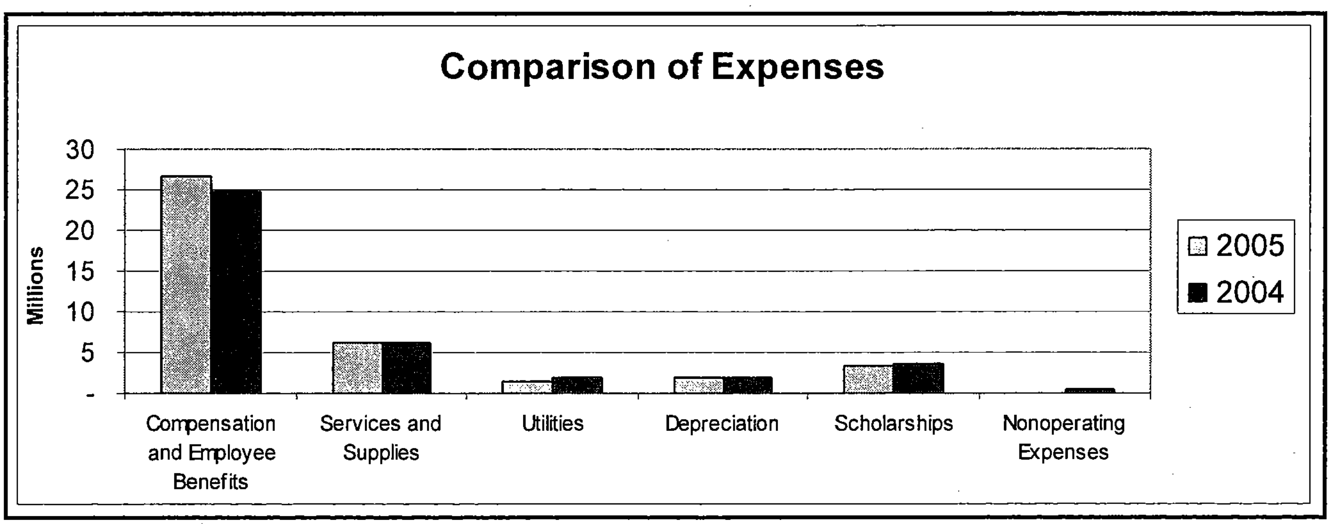


- Total operating expenses have increased approximately $1,458,000. The 2004 – 2005 Appropriations Act approved a 3% cost of living salary increase and the Board of Trustees approved an additional 2% salary increase. These increases were offset because wages, benefits, and supplies used in the housing operation were reimbursed due to outsourcing.
- Nonoperating expenses decreased due to a reduction in interest and other fees on capital asset related debt.

The following graph displays expense categories.



The graph below compares 2005 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset

Nursing Building
The University started construction in June 2005 of a 30,000 plus square foot building to house the baccalaureate nursing program. Funding will be from a gift of the Foundation and State appropriations. As of year end, the University had expended approximately $377,500.

The two-story building will contain all classrooms, patient care labs and support spaces needed for the nursing program. The first floor will contain an auditorium, classrooms, and administrative offices. The second floor will contain classrooms, a patient care lab and computer training areas for the nursing program. The patient care lab contains 16 beds that replicate a typical hospital environment. Three special procedure areas will allow specialized training by simulating a birthing room, intensive are area, and semi private areas with bathing facilities.
All classrooms, offices, and patient care areas will be networked for computer access and electronic learning.

Planetarium
During the year there was a $157,039 upgrade to the Dooley Planetarium that replaced the projector and made other improvements to the multimedia and sound systems.

Student Activity Center
The University is in the process of constructing a student activity center that will provide students with a variety of dining options, a game room, and areas to relax. There was $71,004 spent for the student activity center primarily for architect fees this year. Financing was completed and construction started after the end of this fiscal year. The subsequent events section of this report contains more information.

Economic Outlook

There are no known decisions or conditions that will have a significant effect on the University's economic position for the year beginning July 1, 2005. Francis Marion's financial position is solid and the University is able to continue to achieve its mission of providing an excellent education in the liberal arts and selected professional programs in business, education and nursing to people of all ages and origins.

US News and World Reports magazine has ranked the University in the South's top 100 master's level Universities for the fifth year in a row. Tuition has been held to a level that helps achieve its mission while still providing adequate funding for growth in programs.

The University looks forward to the future by planning to make capital improvements to the campus and expanding its teaching and research over the next few years. Among the planned improvements: an academic building to house the business and education programs, renovating Founders Hall, and an addition to student housing that will add 200 more beds.

The University also plans to use an appropriation of $2,000,000 from the State to build a multi-disciplinary center that contains a child development and evaluation clinic for at risk children and families in the state. The center will house a child study lab providing day care for up to 100 children ages 6 weeks to 5 years. There will be facilities for the development and dissemination of best practices in early childhood education and for providing technical assistance to State early childhood programs.

FRANCIS MARION UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	
Current Assets	
Cash and cash equivalents	$ 7,910,896
Accounts receivable (net of allowance for doubtful accounts $130,719)	1,611,129
Accrued interest receivable	35,587
Due from Francis Marion University Foundation	18,142
Prepaid expenses	704,868
Inventories	60,615
Total current assets	10,341,237
Noncurrent Assets	
Restricted cash and cash equivalents	1,147,304
Long-term accounts receivable	200,000
Due from FMU Foundation	208,390
Perkins loans receivable	1,810,973
Capital assets, net of accumulated depreciation	25,223,892
Total noncurrent assets	28,590,559
Total assets	38,931,796
LIABILITIES	
Current Liabilities	
Accounts payable	537,912
Accrued payroll and related liabilities	293,286
Accrued compensated absences - current portion	973,255
Student deposits - current portion	72,050
Deferred revenues and unearned student revenues	724,773
Leases payable - current portion	17,440
Notes payable - current portion	68,104
Deposits held for others	223,825
Total current liabilities	2,910,645
Noncurrent Liabilities	
Accrued compensated absences	517,107
Student deposits	76,225
Deferred revenue	3,044,579
Leases payable	45,432
Notes payable	40,887
Perkins liability	1,655,415
Total noncurrent liabilities	5,379,645
Total liabilities	8,290,290
NET ASSETS	
Invested in capital assets, net of related debt	25,052,028
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	118,959
Research	2,225
Instructional department uses	460,262
Loans	473,776
Capital projects	243,712
Other	53,926
Unrestricted	4,036,618
Total net assets	$ 30,641,506

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $6,981,436.80)	$ 12,192,412
Federal grants and contracts	4,780,671
State grants and contracts	5,279,564
Local grants and contracts	65,178
Non-governmental grants and contracts	66,517
Sales and services of education departments	146,162
Sales and services of auxiliary enterprises	1,029,350
Other operating revenues	456,043
Total operating revenues	24,015,897
OPERATING EXPENSES	
Salaries and wages	21,247,832
Benefits	5,460,896
Supplies and other services	6,228,456
Utilities	1,457,625
Scholarships	3,380,825
Depreciation	1,889,363
Total operating expenses	39,664,997
Operating loss	(15,649,100)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	13,454,008
State grants	607,736
Gifts	866,336
Investment income	178,357
Interest and other fees on capital asset related debt	(28,417)
Other nonoperating revenues (expenses)	58,168
Net nonoperating revenue	15,136,188
Loss before other revenues, expenses, gains, losses, and transfers	(512,912)
Capital improvement bonds	2,090
Capital gifts	369,490
Transfer from FMU Foundation	15,168
Decrease in net assets	(126,164)
Net assets - beginning of year	30,767,670
Net assets - end of year	$ 30,641,506

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 12,123,675
Grants and contracts	10,212,289
Sales and services of educational activities	145,744
Auxiliary enterprises	525,815
Receipts for reimbursements	1,242,116
Payments to suppliers	(8,820,222)
Payments to employees	(21,623,454)
Payments for benefits	(5,555,530)
Payments for scholarships	(3,380,894)
Loans to students	(381,256)
Collection of loans	228,554
Inflows from Stafford loans	14,301,258
Outflows from Stafford loans	(14,262,275)
Inflows from agency funds	5,302,373
Outflows from agency funds	(5,076,890)
Other receipts	1,148,691
Net cash (used) by operating activities	(13,870,006)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	13,454,008
State grants	607,736
Gifts	760,021
Other outflows	(102,682)
Net cash flow provided by noncapital financing activities	14,719,083
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations	2,090
Capital grants and gifts received	9,229
Purchases of capital assets	(554,440)
Proceeds from sale of capital assets	16,205
Principal paid on capital leases	(18,374)
Principal paid on note payable	(65,670)
Interest and fees	(28,417)
Net cash (used) by capital activities	(639,377)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	245,336
Net cash flows provided by investing activities	245,336
Net change in cash	455,036
Cash and cash equivalents - beginning of year	8,603,164
Cash and cash equivalents - end of year	$ 9,058,200

FRANCIS MARION UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2005

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:	
Operating (loss)	$ (15,649,100)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenue	143,960
Noncash gifts	117,747
Transfers from FMU Foundation	13,213
Depreciation expense	1,889,363
Bad debts	22,355
Loan cancellations	29,848
Change in asset and liabilities:	
Receivables net	(642,407)
Inventories	20,148
Loans to students	(153,285)
Deferred charges and prepayments	3,978
Accounts payable	145,727
Accrued payroll and related liabilities	36,288
Deferred revenue	(135,316)
Perkins liability	16,355
Deposits held for others	136,109
Compensated absences payable	135,011
Net cash (used) by operating activities	$ (13,870,006)

Noncash capital and related financing activities:

The University disposed of equipment with a cost of $214,326 and accumulated depreciation of $197,891.

The University acquired new equipment by trading in old equipment with a cost of $6,837 and accumulated depreciation of $684.

The University received gifts of capital assets of $369,490.

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

Assets	
Cash and cash equivalents	$ 4,162,576
Investments	10,513,170
Contributions receivable, net	1,541,102
Accrued interest receivable	127,350
Assets held in trust by others	884,992
Property and equipment, net	2,054,466
Other assets	28,050
Total assets	$ 19,311,706
Liabilities and Net Assets	
Liabilities:	
Accounts payable	$ 62,819
Due to Francis Marion University	18,142
Notes payable	1,550,000
Notes payable - related party	208,390
Total liabilities	1,839,351
Net assets:	
Unrestricted	3,011,692
Temporarily restricted	6,658,337
Permanently restricted	7,802,326
Total net assets	17,472,355
Total liabilities and net assets	$ 19,311,706

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support				
Gifts and bequests	$ 91,138	$ 338,028	$ 323,841	$ 753,007
Trust income	33,000	34,677	-	67,677
Investment income	105,537	301,815	1,580	408,932
Cottage income	43,805	-	-	43,805
Net unrealized and realized gains (losses) on investments	498,899	-	21,586	520,485
Net assets released from restrictions	571,702	(571,702)	-	-
Total revenue, gains and other support	1,344,081	102,818	347,007	1,793,906
Expenses and losses				
Program expenses	576,137	-	-	576,137
Capital support to Francis Marion University	369,490	-	-	369,490
General and administrative	247,686	-	-	247,686
Interest expense	35,629	-	-	35,629
Fund raising	19,961	-	-	19,961
Cottage expenses	44,545	-	-	44,545
Campaign expenses	3,724	-	-	3,724
Total expenses and losses	1,297,172	-	-	1,297,172
Changes in net assets before transfers	46,909	102,818	347,007	496,734
Transfer to Francis Marion University	(15,168)	-	-	(15,168)
Change in net assets	31,741	102,818	347,007	481,566
Net assets, June 30, 2004, as restated	2,979,951	6,555,519	7,455,319	16,990,789
Net assets, June 30, 2005	$ 3,011,692	$ 6,658,337	$ 7,802,326	$ 17,472,355

See accompanying Notes to Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Francis Marion University is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

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 enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

The Francis Marion University Foundation (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued financial statements of the Foundation can be obtained by sending a request to Francis Marion University Foundation, Post Office Box 100547, Florence, South Carolina 29501

Basis of Accounting

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

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

The Foundation is a private nonprofit organization that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Cash and Cash Equivalents

For purposes of the financial statements, the University and its component unit consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

Investments

The University accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

The Foundation investment securities and donated negotiable assets are stated at fair value. Investment income, net of external and internal management expenses and fees, and gains and losses arising from the sale or other disposition of investments and other non-cash assets are distributed to the various funds using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

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

Contributions Receivable
The Foundation contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

Inventories
Inventories are for internal use and are valued at cost using the first in-first out (FIFO) method.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for computer software, and 2 to 25 years for machinery, equipment, and vehicles.

Property and equipment of the Foundation is stated at cost and is depreciated using the straight-line method.

Deferred Revenues and Deposits
Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

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

Perkins Loans Receivable and Related Liability
The loans receivable on the balance sheet are due to the University primarily under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

Net Assets

The University's net assets are classified as follows:

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

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

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

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

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

The net assets of the Foundation are classified as follows:

Unrestricted net assets: Net assets subject to donor-imposed stipulations. Unrestricted net assets also include funds designated for specific purposes by action of the Board of Directors.

Temporary restricted net assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Income Taxes

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

Francis Marion University Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and is exempt from taxes under Section 501(c)(3).

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

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

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

Auxiliary Enterprises and Internal Service Activities

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

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

NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS

All deposits and investments 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 and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets		Footnotes	
Cash and cash equivalents (current)	$ 7,910,896	Cash on hand	$ 26,225
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	9,031,975
Exchange grants	658,602		
Perkins loan funds	246,447		
Capital projects	242,255		
Total	$ 9,058,200	Total	$ 9,058,200

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.

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.

Other Deposits
The Foundation maintains its cash balances in various financial institutions. The balances at the institutions are insured up to $100,000 by federal deposit insurance. As of June 30, 2005, there were uninsured amounts at the institutions of $3,680,417. Included in cash and cash equivalents is $2,210,740 in uninsured amounts managed by a brokerage firm.

Investments
The Foundation investments as of June 30, 2005, are summarized as follows:

Certificates of deposit	$ 991,637
Equity securities	6,197,535
Corporate bonds	2,869,226
Government bonds	454,772
Total	$ 10,513,170

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Foundation's investment objective and policies, as adopted by its Board of Directors.

NOTE 3 – RECEIVABLES

Accounts Receivable
The University accounts receivable as of June 30, 2005, are summarized as follows:

Current:	
Student tuition and fees	$ 373,653
Less allowance for doubtful accounts	(130,719)
Federal grants and contracts	241,582
State and local grants and contracts	52,370
Sales and services of education departments	11,456
Auxiliary services	968,364
Other	94,423
Net accounts receivable	$1,611,129
Noncurrent:	
Advance receivable	$ 200,000
Net accounts receivable	$ 200,000

The amounts shown above are reported at gross with all discounts and allowances disclosed.

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2005, the allowance for uncollectible student accounts is valued at $130,719.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors. Reimbursements due for these services at June 30, 2005, are $424,481 and are included in accounts receivable – auxiliary enterprises.

The University advanced $200,000 to Sodexho, the food service contractor. The advance is for the term of the contract, which ends on June 30, 2008.

Contributions Receivable

The Foundation contributions receivable as of June 30, 2005, are summarized as follows:

Unconditional promises expected to be collected in:	
Less than one year	$1,310,557
One year to five years	337,596
	1,648,153
Less discounts to net present value	(83,143)
Less allowance for uncollectible contributions	(23,908)
Net contributions receivable	$1,541,102

A receivable from one donor accounts for approximately 80% of the total contributions receivable.

NOTE 4 – LOANS RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2005. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

NOTE 5 – CAPITAL ASSETS

Capital assets activity of the University for the year ended June 30, 2005, is summarized as follows:

	Beginning Balance July 1, 2004	Additions	Retirements	Ending Balance June 30, 2005
Capital assets not being depreciated:				
Land and improvements	$ 632,392	$ -	$ -	$ 632,392
Construction in progress	406,212	588,757	(157,037)	837,932
Art work and historical treasures	200,248	-	-	200,248
Total capital assets not being depreciated	1,238,852	588,757	(157,037)	1,670,572
Other capital assets:				
Land improvements	2,621,749		-	2,621,749
Buildings and improvements	55,008,270	157,037	-	55,165,307
Computer software	-	131,895	-	131,895
Machinery, equipment, and other	2,406,629	172,355	(146,973)	2,432,011
Vehicles	422,356	37,077	(67,353)	392,080
Total other capital assets at historical cost	60,459,004	498,364	(214,326)	60,743,042
Less accumulated depreciation for:				
Land improvements	(1,882,472)	(53,552)	-	(1,936,024)
Buildings and improvements	(31,250,057)	(1,605,528)	-	(32,855,585)
Computer software	-	(43,965)	-	(43,965)
Machinery, equipment, and other	(1,973,293)	(161,188)	130,538	(2,003,943)
Vehicles	(392,428)	(25,130)	67,353	(350,205)
Total accumulated depreciation	(35,498,250)	(1,889,363)	197,891	(37,189,722)
Other capital assets, net of accumulated depreciation	24,960,754	(1,390,999)	(16,435)	23,553,320
Capital assets, net of accumulated depreciation	$ 26,199,606	$ (802,242)	$ (173,472)	$ 25,223,892

Property and Equipment
Property and equipment of the Foundation as of June 30, 2005, consists of the following:

Land	$ 1,329,789
Wallace cottage building	726,565
Computer and software	38,388
Furniture and fixtures	42,439
	2,137,181
Less accumulated depreciation	(82,715)
Property and equipment, net	$ 2,054,466

Depreciation expense for the year was $23,513.

NOTE 6 – PENSION PLAN

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) that 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.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System
The majority of employees of 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent that included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The University's contributions to the SCRS for the three most recent fiscal years ending June 30, 2005, 2004, and 2003, were approximately $1,160,000, $1,056,000, and $1,026,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $23,000 in the current fiscal year at the rate of .15 percent of compensation. The University paid the employer's 7.55 percent share, included in the amount above, of approximately $7,400 of pension costs for employees on educational leave with employees paying approximately $2,000.

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 13.55 percent that, as for the SCRS, included the 3.25 percent surcharge. The University's contributions to the PORS for the years ending June 30, 2005, 2004, and 2003, were approximately $40,700, $38,200, and $35,800, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $800 and accidental death insurance contributions of approximately $800 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program
Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.
ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2005.

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 approximately $380,000 (excluding the surcharge) from the University as employer and approximately $302,000 from its employees as plan members. 5.80 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. Also, the University paid employer group life insurance contributions of approximately $7,500 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. The University paid the employer's 7.55 percent share, included in the amount above, of approximately $2,000 of pension costs for employees on educational leave with employees paying approximately $1,600. The obligation for payment of benefits resides with the insurance companies.

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

Teacher and Employee Retention Incentive

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

NOTE 7 – 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 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. Approximately 26,400 State retirees met these eligibility requirements as of June 30, 2004.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately $1,521,000 for the year ended June 30, 2005. These amounts were remitted to the Office of Insurance Services. As discussed in Note 6, the University paid approximately $676,000 applicable to the 3.25 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 8 – CONTINGENCIES, LITIGATION, AND COMMITMENTS

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

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

The University had outstanding commitments under construction contracts of approximately $6,964,000 at June 30, 2005, of which approximately $6,824,000 will be capitalized. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds and State appropriations. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has $360,761 of authorized undrawn state capital improvement bonds.

NOTE 9 – DEFERRED REVENUES

Deferred revenues as of June 30, 2005, are summarized as follows:

Current:	
Student tuition and fees	$ 494,488
Grants and contracts	89,306
Sales and services of education departments	16,259
Housing rental	108,412
Other	16,308
Net deferred revenues	$ 724,773
Noncurrent:	
Housing rental	$3,044,579
Net deferred revenues	$3,044,579

NOTE 10 – LEASE OBLIGATIONS

Future commitments for capital leases as of June 30, 2005, are as follows:

	Year Ending June 30,	Capital Lease Payments
	2006	$ 35,056
	2007	35,056
	2008	35,056
	2009	15,184
Total minimum lease payment		120,352
Less: Interest		(4,510)
Executory and other costs		(52,970)
Principal outstanding		$ 62,872

Capital Leases
Capital leases for various pieces of equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled $85,657 as of June 30, 2005. Accumulated amortization of the leases on this equipment totaled $34,261 at June 30, 2005, resulting in a book value of $51,396. Current years amortization expense on capital leases was $17,131 that is included in depreciation expense. The capital leases are with external parties.

Operating Leases
During fiscal year 2005, the University paid approximately $57,500 for copier leases paid on a cost per copy basis to external parties. The University also paid approximately $25,500 on equipment under a cancelable operating lease.

All payments were to external parties.

NOTE 11 – BONDS AND NOTES PAYABLE

Bonds Payable
Currently, the University has no outstanding bonds.

Tuition fees, as defined by code section 59-107-30, of approximately $205,000 were collected during fiscal year 2004. The University has no debt from institution bonds.

In prior years, the University defeased certain bonds by placing the proceeds received from the FMU Real Estate Foundation as advance rent in an irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2005, $2,695,000 of bonds outstanding are considered defeased.

Notes Payable
The University notes payable consist of the following at June 30, 2005:

	Interest Rate	Maturity Date	Balance
Master purchase line agreement to acquire a PBX telephone switch dated January, 2002	3.65%	February, 2007	$ 108,991

The scheduled maturities of the note payable is as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2006	$ 68,104	$ 2,843	$ 70,947
2007	40,887	499	41,386
Totals	$ 108,991	$ 3,342	$ 112,333

The Foundation notes payable consists of $250,000 owed on a loan agreement with a financial institution to construct the Francis Marion University Faculty Alumni House and the $200,000 advance from the University as described in Note 14. The Foundation also entered into a loan agreement to borrow $1,300,000 to purchase land adjacent to the University with a fixed interest rate of 6.125% with interest payable quarterly. The entire principle is due at maturity on May 30, 2008.

NOTE 12 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2005, are as follows:

	June 30, 2004	Additions	Reductions	June 30, 2005	Due within One year
Note payable and capital lease obligations:					
Notes payable	174,661	-	(65,670)	108,991	68,104
Capital lease obligations	81,246	-	(18,374)	62,872	17,440
Total notes and capital leases	255,907	-	(84,044)	171,863	85,544
Other liabilities:					
Accrued compensated absences	1,355,351	1,108,311	(973,300)	1,490,362	973,255
Perkins federal capital contributions	1,633,017	22,398	-	1,655,415	-
Student deposits	135,175	83,365	(70,265)	148,275	72,050
Deferred housing rental	3,261,101	-	(108,110)	3,152,991	108,412
Total other liabilities	6,384,644	1,214,074	(1,151,675)	6,447,043	1,153,717
Total long-term liabilities	$ 6,640,551	$ 1,214,074	$ (1,235,719)	$ 6,618,906	$ 1,239,261

NOTE 13 – ENDOWMENTS

Donor Restricted Permanent Endowments

Endowments 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 that the income be used for a specific purpose. These restrictions are discussed in Note 14. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 14 – COMPONENT UNIT

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2005, and for the year then ended follows.

a)	Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.	$ 227,071
b)	Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes $1,794 owed to the University at June 30, 2005, and included in amount due from Foundation.) The University recorded these awards as gift revenue and the applicable operating expense.	$ 156,637
c)	Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as gift revenue and salary expense.	$ 66,500
d)	Reimbursements for University employee time and other costs paid by the University	

	on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expense.	$ 65,518
e)	Group life insurance premium payments made by the University and funded by the Foundation. (Includes $656 owed to the University at June 30, 2005, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefit expense.	$ 7,868
f)	Architect fees paid by the Foundation for the nursing building. The University recorded these amounts as capital gift revenue and construction in progress.	$ 369,490

g) Rent for a motor vehicle used by the University's President in the amount of $11,844 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included $14,723 for club memberships, $9,935 for other goods and services, $1,704 for furniture and appliances, $11,836 for special events and $6,738 for travel. The University recorded these amounts as gift revenue and the applicable operating expense.

h) The University amended a loan agreement with the Foundation in which the University lent the Foundation $200,000 (all of its endowment assets). The Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2005, the endowment earned $11,890 and an award was made to the University for $3,500. The $8,390 excess was applied to the principal. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

i) The University leased land to the Foundation in 2004 for $1 per year for the faculty-alumni house. The lease is for twenty-five years with an option to renew for an additional ten years. Upon expiration of the lease the faculty-alumni house will become the property of the University. The University pays the Foundation $30,000 per year for five years for usage of the facility. At year end, the University receives 70% of the profit from the Foundation or pays the Foundation 70% of any loss. For the year, the profit split was $15,168 and is included in amount due from Foundation. Also, the University is owed $524 for reimbursement of operating expenses paid by the University on behalf of the Foundation.

NOTE 15 – RELATED PARTIES

The FMU Student Housing, LLC, a single member limited liability company owned by the Francis Marion University Real Estate Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of 716 beds and 8.96 acres of land for their 237 bed apartment complex. The lease agreement provides for the University to be paid any net available cash flow from the operation less any amount agreed upon by the University and LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits to the repair and replacement fund have occurred in accordance with bond documents. Rental income from housing operations for fiscal year 2005 is $108,109, a portion of the advanced rent paid by the Real Estate Foundation in 2004 and an additional rental payment of $450,000 from available net cash flow. Rental income due from the LLC at June 30, 2005, is

$450,000 and is included in accounts receivable – auxiliary enterprises.

The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the FMU Student Housing, LLC. Collections due to the LLC at June 30, 2005, are $343,305 and are included in accounts payable.

NOTE 16 – RISK MANAGEMENT

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

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

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

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

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

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

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

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for loses arising from theft or misappropriation.

NOTE 17 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2005, are summarized as follows:

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	$ 11,732,851	$ 2,801,481	$ 912,183	$ 44,859	$ -	$ -	$ 15,491,374
Research	122,621	18,492	82,958	-	-	-	224,071
Public service	203,964	39,559	265,961	358	-	-	509,842
Academic support	1,832,774	483,913	1,772,113	14,624	-	-	4,103,424
Student services	1,990,571	537,557	1,220,951	29,577	-	-	3,778,656
Institutional support	3,006,575	818,508	531,838	34,661	-	-	4,391,582
Operation and maintenance of plant	2,264,158	742,892	1,175,259	1,304,793	-	-	5,487,102
Depreciation	-	-	-	-	3,380,825	-	3,380,825
Scholarships	-	-	-	-	-	1,889,363	1,889,363
Auxiliary Enterprises	94,318	18,494	267,193	28,753	-	-	408,758
Total operating expenses	$ 21,247,832	$ 5,460,896	$ 6,228,456	$ 1,457,625	$ 3,380,825	$ 1,889,363	$ 39,664,997

NOTE 18 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2005:

NON-CAPITAL APPROPRIATIONS	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	$ 12,791,868
Supplemental Appropriations	
Pay Plan Reimbursement	356,916
Health and Dental Insurance	42,863
From Commission on Higher Education:	
Academic Incentive Endowment Match	12,361
Nursing Building Project - Non-recurring	250,000
Total non-capital appropriations recorded as current year revenue	$ 13,454,008

NOTE 19 – STATEMENT OF ACTIVITIES

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

	Year ended June 30, 2005	Year ended June 30, 2004, restated
Charges for services	$ 23,559,854	$ 23,234,092
Operating grants and contributions	2,181,808	1,891,559
Capital grants and contributions	369,490	
Less: expenses	(39,693,414)	(38,358,679)
Net program revenues	(13,582,262)	(13,233,028)
Transfers:		
State appropriations	13,454,008	12,643,305
Capital improvement bond proceeds	2,090	30,584
Extraordinary loss on early refunding of bonds	-	(208,505)
Total transfers and extraordinary loss	13,456,098	12,465,384
Change in net assets	(126,164)	(767,644)
Net assets - beginning	30,767,670	31,535,314
Net assets - ending	$ 30,641,506	$ 30,767,670

NOTE 20 – SUBSEQUENT EVENTS

BB&T/Amelia Wallace Faculty/Alumni Cottage
On August 9, 2005, the Board of Directors of the Francis Marion University Real Estate Foundation authorized the purchase of the BB&T/Amelia Wallace Faculty/Alumni Cottage (Cottage) from the Francis Marion University Foundation The Cottage's current value including contents is approximately $769,000. The Francis Marion University Real Estate Foundation is to pay the Francis Marion University Foundation $250,000 for the Cottage with the remaining value being received as a gift from the Francis Marion University Foundation. The Board of Directors of the Francis Marion University Real Estate Foundation additionally authorized the gifting of the Cottage to the University upon closing and receipt of the gift.

Pee Dee Education Research Center
Approximately nine and one-half acres of land owned by the Pee Dee Education Research Center and a 14,880 square foot building has been deeded to Francis Marion University in exchange for $5 and a 99-year lease for the building. The rent of $99 was paid in advance.

Student Activity Center
The University has obtained $1,275,000 in State Institution Bonds to fund the building of a student activity center. The 4200 square foot single story facility will provide meeting and recreation spaces for housed and commuting students. The General Obligation State Institution Bonds, Series 2005C mature on June 1 of each year beginning with June 1, 2006 and continuing until June 1, 2015. The composite interest rate for the issue is 3.514%. Annual principal and interest payments will average $152,824.

Energy Grant
An energy grant was approved by EPA and DHEC for the purpose of saving energy. The project, Expansion of the Energy Management System, is for $250,000 and will be funded by Santee Cooper.

NOTE 21 – PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

The Foundation's notes payable balances were overstated in the June 30, 2004 financial statements by $100,000. Consequently beginning net assets have been restated to reflect this error. Additionally, certain net asset balances were reclassified during the year. The table below depicts these changes:

	Net Assets		
	Unrestricted	Temporarily Restricted	Permanently Restricted
As previously reported	$ 2,889,593	$ 6,529,876	$ 7,471,319
Amount restated	100,000	-	-
Amounts reclassified	(9,642)	25,643	(16,000)
As restated/classified	$ 2,979,951	$ 6,555,519	$ 7,455,319

FRANCIS MARION UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Program Title	Federal CFDA Number	Grant/Contract Number	Total Expenditures
Direct Programs:			
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	2001UMWX0269	$ 5,643
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	PO7A53784	142,225
Federal Work-Study Program	84.033	PO33A53784	136,160
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A53784	2,102,367
Federal Pell Grant Program	84.063	PO63P56065	4,003,495
National Science Foundation			
Mathematical and Physical Sciences	47.049	CHE-0315152	97,584
U.S. Department of Health and Human Services			
Special Minority Initiatives	93.960	1R25GM66318-01	152,519
Securities and Exchange Commission			
Securities-Investigation of Complaints and SEC Information	58.001	M03-0537	10,091
Total Direct Programs			6,650,084
Indirect Programs:			
U.S. Department of Justice			
Passed through South Carolina Department of Safety			
Byrne Formula Grant Program	16.579	1F02089	4,178
Passed through South Carolina Statewide Initiative			
on College Drinking	16.540	2001-AH-FX-0045	7,141
U.S. Department of Education			
Passed Through National Writing Project Corp.			
National Writing Project	84.928A	00-SC10	47,580
Passed Through South Carolina Commission on Higher Education			
Improving Teacher Quality State Grants	84.367	0304248-H18	110,123
Passed Through South Carolina Department of Education			
Improving Teacher Quality State Grants	84.367	05TQ304-01	2,000
Passed Through South Carolina Department of Education			
Special Education-State Program Improvement Grants			
for Children with Disabilities	84.323	04-CT-304	2,256
National Science Foundation			
Passed through the Association of American Colleges and Universities			
Education and Human Resources	47.076	0402224-H18	484
Passed through the Mathematical Association of America			
Mathmatical and Physical Sciences	47.049	dms-0241090	1,220
U.S. Department of Health and Human Services			
Passed through the University of Florida			
Fogarty International Research Collaboration Award	93.934	UF-EIES-0308002-FMU	18,430
U.S. Department of Agriculture			
Passed through the University of South Carolina			
Wetlands Reserve Program	10.072	PO32231	634
Total Indirect Programs			194,046
Total Federal Assistance			$ 6,844,130

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Francis Marion University (the University) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

August 24, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Francis Marion University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2005. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses..

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

August 24, 2005

FRANCIS MARION UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated August 24, 2005 on the financial statements of the University for the year ended June 30, 2005 was issued.

2. No reportable conditions related to internal control over financial reporting were noted.

3. No instances of noncompliance which were material to the financial statements were noted.

FEDERAL AWARDS:

4. An unqualified opinion on compliance for the major program dated August 24, 2005 was issued.

5. There are no findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133.

6. The major programs of the University are as follows:

CFDA #	Program Title
84.007	Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan Program
84.063	Pell Grant Program

7. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

8. The University was determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

No material reportable conditions were noted during our audit.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.