

**FRANCIS MARION UNIVERSITY  
FLORENCE, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

*State of South Carolina*



*Office of the State Auditor*

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

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

September 11, 2006

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, 2006, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/trb

FRANCIS MARION UNIVERSITY

TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2006

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 and 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 8
<b>FINANCIAL STATEMENTS:</b>	
Statement of net assets	9
Statement of revenues, expenses and changes in net assets	10
Statement of cash flows	11 and 12
Statement of financial position - Francis Marion University Foundation	13
Statement of activities □ Francis Marion University Foundation	14
Notes to financial statements	15 □ 32
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	33
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u></b>	34 and 35
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	36 and 37
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	38 and 39
<b>MANGEMENT'S RESPONSE</b>	APPENDIX A

## INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA  
Deputy 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, 2006 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, 2006, 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.



1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: [cpa@rogerslaban.com](mailto:cpa@rogerslaban.com)

*Investment Advisory Services Offered  
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global  
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through  
1st Global Insurance Services, Inc.*

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, 2006, 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.

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 30, 2006, 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 30, 2006

# 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, 2006 with selected comparative information for the year ended June 30, 2005. 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

	2006	2005	Increase □ (Decrease)	Percent Change
<b>Assets:</b>				
Current assets	□ 13,119,109	□ 10,341,237	□ 2,777,872	26.86□
Capital assets, net of accumulated depreciation	32,240,428	25,223,892	7,016,536	27.82□
Other noncurrent assets	5,923,785	3,366,667	2,557,118	75.95□
<b>Total assets</b>	<u>51,283,322</u>	<u>38,931,796</u>	<u>12,351,526</u>	31.73□
<b>Liabilities:</b>				
Current liabilities	5,699,328	2,910,645	2,788,683	95.81□
Noncurrent liabilities	5,994,746	5,379,645	615,101	11.43□
<b>Total liabilities</b>	<u>11,694,074</u>	<u>8,290,290</u>	<u>3,403,784</u>	41.06□
<b>Net assets:</b>				
Invested in capital assets, net of debt	30,984,109	25,052,028	5,932,081	23.68□
Restricted - nonexpendable	200,000	200,000	-	0.00□
Restricted - expendable	4,003,527	1,352,860	2,650,667	195.93□
Unrestricted	4,401,612	4,036,618	364,994	9.04□
<b>Total net assets</b>	<u>□ 39,589,248</u>	<u>□ 30,641,506</u>	<u>□ 8,947,742</u>	29.20□

---

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

- Total assets of the University increased by □12 million.
- The increase in current assets was attributable to a □2 million receivable for construction of the Center for the Child.
- Construction in progress of □8.6 million, netted with disposals and depreciation, accounted for a majority of the increase in capital assets.
- Substantial gifts for construction projects increased restricted cash and resulted in an increase in other noncurrent assets.
- Total liabilities increased by □3 million.
- An increase in current liabilities is largely due to an increase in accounts payable and deferred revenue for □1,650,000 of unspent grant funds for a construction project.

- A □1,275,000 bond issue contributed to the increase in noncurrent liabilities.
- Total net assets increased by □8.9 million, which was largely attributable to the new construction projects within the University's campus development campaign.

### **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**

	2006	2005	Increase □ (Decrease)	Percent Change
Operating revenues	□ 26,041,689	□ 24,015,897	□ 2,025,792	8.44 □
Operating expenses	44,066,742	39,664,997	4,401,745	11.10 □
<b>Operating loss</b>	<u>(18,025,053)</u>	<u>(15,649,100)</u>	<u>(2,375,953)</u>	15.18 □
Nonoperating revenues	17,522,696	15,254,365	2,268,331	14.87 □
Nonoperating expenses	62,935	118,177	(55,242)	(46.75 □)
<b>Net nonoperating revenues</b>	<u>17,459,761</u>	<u>15,136,188</u>	<u>2,323,573</u>	15.35 □
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b>	(565,292)	(512,912)	(52,380)	(10.21 □)
<b>Other revenues, expenses, gains, losses, and transfers</b>	<u>9,513,034</u>	<u>386,748</u>	<u>9,126,286</u>	(2359.75 □)
<b>Increase (decrease) in net assets</b>	8,947,742	(126,164)	9,073,906	7192.15 □
<b>Net assets - beginning of year</b>	<u>30,641,506</u>	<u>30,767,670</u>	<u>(126,164)</u>	(0.41 □)
<b>Net assets - end of year</b>	<u>□ 39,589,248</u>	<u>□ 30,641,506</u>	<u>□ 8,947,742</u>	29.20 □

---



---

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase 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:

- The University experience a □2 million increase in operating revenues. This is primarily comprised of fee increases for student tuition and increases in federal and state grants.
- The increase in nonoperating revenue is due to the □1.9 million increase in state appropriations and moderate increases in gifts and investment income.
- A net gain in other revenues was realized due to a □3.5 million capital appropriation and capital gifts of □6 million.





### **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 Assets and Debt**

Total assets, net of depreciation for the University is \$32,240,428 at June 30, 2006. This represents an increase of \$7,016,536 much of which is attributable to the Student Activity Center and the Dr. Frank B. Lee Nursing Building. Both of these buildings opened in time for the beginning of the fall

2006 semester. Also included in the capital assets at June 30, 2006, is \$8,659,919 in construction in process. The construction in progress is largely comprised of the Student Activity Center (\$1,221,935) and the Dr. Frank B. Lee Nursing Building (\$7,048,745).

During the current year, the University borrowed \$1,275,000 through State Institution Bonds which were used in the construction of the Student Activity Center. Details of the bonds, note payable and capital leases are available in notes 12, 13, and 14.

### **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, 2006. 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 sixth 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.

**Francis Marion University**  
**Statement of Net Assets**  
**June 30, 2006**

**ASSETS**

**Current Assets**

Cash and cash equivalents	8,709,722
Accounts receivable (net of allowance for doubtful accounts 142,456)	3,466,061
Accrued interest receivable	69,927
Due from Francis Marion University Foundation	11,652
Prepaid expenses	827,253
Inventories	34,494
<b>Total current assets</b>	<u>13,119,109</u>

**Noncurrent Assets**

Restricted cash and cash equivalents	3,791,086
Long-term accounts receivable	200,000
Note receivable - due from Francis Marion University Foundation	213,705
Perkins loans receivable	1,718,994
Capital assets, net of accumulated depreciation	32,240,428
<b>Total noncurrent assets</b>	<u>38,164,213</u>
<b>Total assets</b>	<u>51,283,322</u>

**LIABILITIES**

**Current Liabilities**

Accounts payable	1,385,868
Accrued payroll and related liabilities	249,062
Accrued compensated absences - current portion	1,243,531
Student deposits - current portion	74,450
Deferred revenues and unearned student revenues	2,378,810
Capital leases payable - current portion	18,149
Note payable - current portion	40,887
Bonds payable - current portion	110,000
Deposits held for others	198,571
<b>Total current liabilities</b>	<u>5,699,328</u>

**Noncurrent Liabilities**

Accrued compensated absences	255,802
Student deposits	81,550
Deferred revenue	2,936,167
Capital leases payable	27,283
Bonds payable	1,060,000
Perkins liability	1,633,944
<b>Total noncurrent liabilities</b>	<u>5,994,746</u>
<b>Total liabilities</b>	<u>11,694,074</u>

**NET ASSETS**

Invested in capital assets, net of related debt	30,984,109
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	105,350
Research	2,226
Instructional department uses	895,590
Loans	469,760
Capital projects	2,491,579
Other	39,022
Unrestricted	4,401,612
<b>Total net assets</b>	<u>39,589,248</u>

See accompanying Notes to Financial Statements.

**Francis Marion University**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2006**

**OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$7,680,614)	13,535,261
Federal grants and contracts	4,952,801
State grants and contracts	6,099,937
Local grants and contracts	96,042
Non-governmental grants and contracts	63,002
Sales and services of educational and other activities	160,687
Sales and services of auxiliary enterprises	638,596
Other operating revenues	495,363
<b>Total operating revenues</b>	<u>26,041,689</u>

**OPERATING EXPENSES**

Salaries and wages	23,402,559
Benefits	5,989,520
Supplies and other services	7,817,564
Utilities	1,619,714
Scholarships	3,413,422
Depreciation	1,823,963
<b>Total operating expenses</b>	<u>44,066,742</u>
<b>Operating income (loss)</b>	<u>(18,025,053)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	15,389,385
Research infrastructure bond proceeds	336,302
State grants	526,030
Gifts	878,853
Investment income	211,205
Interest and other fees on capital asset related debt	(62,935)
Other nonoperating revenues	180,921
<b>Net nonoperating revenue</b>	<u>17,459,761</u>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b>	(565,292)
State capital appropriations	3,500,000
Capital gifts	6,007,405
Transfer from Francis Marion University Foundation	5,629
<b>Increase in net assets</b>	<u>8,947,742</u>

<b>Net assets - beginning of year</b>	30,641,506
<b>Net assets - end of year</b>	<u><u>39,589,248</u></u>

See accompanying Notes to Financial Statements.

**Francis Marion University**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	13,601,500
Grants and contracts	11,125,230
Sales and services of educational and other activities	142,574
Sales and services of auxiliary enterprises	923,096
Receipts for reimbursements	1,101,028
Payments to suppliers	(10,250,645)
Payments to employees	(23,826,613)
Payments for benefits	(6,089,001)
Payments for scholarships	(3,407,757)
Loans to students	(295,551)
Collection of loans	327,774
Inflows from Stafford loans	16,277,520
Outflows from Stafford loans	(16,250,131)
Inflows from agency funds	6,485,188
Outflows from agency funds	(6,542,281)
Other receipts	715,487
<b>Net cash (used) by operating activities</b>	<u>(15,962,582)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State appropriations	15,389,385
Research infrastructure bond proceeds	336,302
State grants	526,030
Gifts	729,957
<b>Net cash flow provided by noncapital financing activities</b>	<u>16,981,674</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	1,275,000
State capital appropriations	1,500,000
Capital grants and gifts received	6,687,468
Purchases of capital assets	(6,983,341)
Proceeds from sale of capital assets	18,725
Principal paid on bond payable	(105,000)
Principal paid on capital leases	(17,440)
Principal paid on note payable	(68,104)
Interest and fees	(62,935)
<b>Net cash provided by capital and related financing activities</b>	<u>2,244,373</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	179,143
<b>Net cash flows provided by investing activities</b>	<u>179,143</u>

<b>Net change in cash</b>	3,442,608
<b>Cash and cash equivalents - beginning of year</b>	9,058,200
<b>Cash and cash equivalents - end of year</b>	<u><u>12,500,808</u></u>

**Francis Marion University**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2006**

**Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:**

Operating (loss)	□ (18,025,053)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenues	157,876
Noncash gifts	148,943
Transfers from Francis Marion University Foundation	5,629
Depreciation expense	1,823,963
Bad debts	51,731
Loan cancellations	82,955
Changes in asset and liabilities:	
Receivables net	80,901
Inventories	26,121
Loans to students	32,223
Deferred charges and prepayments	(122,385)
Accounts payable	(39,265)
Accrued payroll and related liabilities	(44,224)
Deferred revenues and unearned student revenues	(104,375)
Perkins liability	(29,064)
Deposits held for others	(17,529)
Accrued compensated absences	8,971
<b>Net cash (used) by operating activities</b>	<u>□ (15,962,582)</u>

Noncash capital and related financing activities:

The University disposed of equipment and a building with costs of □433,471 and accumulated depreciation of □433,471.  
The University received gifts of capital assets of □969,937.

**See accompanying Notes to Financial Statements.**

**Francis Marion University Foundation**  
**Statement of Financial Position**  
**June 30, 2006**

**Assets**

Cash and cash equivalents	□ 1,939,178
Investments	10,323,514
Contributions receivable, net	629,879
Accrued interest receivable	116,794
Assets held in trust by others	1,295,890
Other assets	1,252,177

**Total assets**

□ 15,557,432

**Liabilities and Net Assets**

Liabilities:

Accounts payable	□ 34,273
Due to Francis Marion University	11,652
Notes payable	1,127,346
Note payable - Francis Marion University	213,705
<b>Total liabilities</b>	<u>1,386,976</u>

Net assets:

Unrestricted	3,442,385
Temporarily restricted	2,501,535
Permanently restricted	8,226,536
<b>Total net assets</b>	<u>14,170,456</u>

**Total liabilities and net assets**

□ 15,557,432

**See accompanying Notes to Financial Statements.**

**Francis Marion University Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>				
Gifts and bequests	□ 437,474	□ 1,633,752	□ 283,153	□ 2,354,379
Trust income	29,722	44,812	-	74,534
Investment income	23,913	462,771	2,794	489,478
Cottage and other income	39,588	-	-	39,588
Net unrealized and realized gains (losses) on investments	297,241	-	138,248	435,489
Net assets released from program restrictions	6,298,122	(6,298,137)	15	-
<b>Total revenue, gains and other support</b>	<u>7,126,060</u>	<u>(4,156,802)</u>	<u>424,210</u>	<u>3,393,468</u>
<b>Expenses</b>				
Program expenses:				
Capital support	5,130,511	-	-	5,130,511
Other program expenses	1,323,822	-	-	1,323,822
General and administrative	229,467	-	-	229,467
Fund raising	11,567	-	-	11,567
<b>Total expenses</b>	<u>6,695,367</u>	<u>-</u>	<u>-</u>	<u>6,695,367</u>
<b>Change in net assets</b>	430,693	(4,156,802)	424,210	(3,301,899)
<b>Net assets, June 30, 2005</b>	<u>3,011,692</u>	<u>6,658,337</u>	<u>7,802,326</u>	<u>17,472,355</u>
<b>Net assets, June 30, 2006</b>	<u>□ 3,442,385</u>	<u>□ 2,501,535</u>	<u>□ 8,226,536</u>	<u>□ 14,170,456</u>

See accompanying Notes to Financial Statements.

# FRANCIS MARION UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Nature of Operations***

Francis Marion University (the 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 (the 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.

## FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

The Foundation's investment securities and donated negotiable assets are stated at market value. Investment income, net of external and internal management expenses and fees, 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 fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, 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 doubtful accounts.

### **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 lives of existing buildings 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.

### **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.

### **Accrued 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 components of salaries and wages and benefits expenses 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 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 pro-rata 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.

# FRANCIS MARION UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### **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:* The Foundation reports net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations as unrestricted net assets.

*Temporary restricted net assets:* Net assets that include gifts of cash and other assets which are received with donor stipulations that limit the use to specific program accomplishments or the passage of time.

*Permanently restricted net assets:* Net assets resulting from contributions and other inflows of assets whose use by the Foundation are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of 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

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

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.

***Sales and Services of 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:

<u>Statement of Net Assets</u>	<u>Footnotes</u>
Cash and cash equivalents (current) □ 8,709,722	Cash on hand □ 26,157
Restricted cash and cash equivalents (noncurrent):	Deposits held by State Treasurer 12,474,651
Exchange grants 1,060,049	
Perkins loan funds 334,966	
Capital projects 2,396,071	
Total □12,500,808	Total □12,500,808

***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

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

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.

there were uninsured amounts at the institutions of \$679,377. Included in cash and cash equivalents is \$1,471,923 not held in FDIC covered institutions.

**Other Deposits**

The Foundation maintains its cash balances in various financial institutions. As of June 30, 2006,

**Investments**

The Foundation investments as of June 30, 2006, are summarized as follows:

---

Certificates of deposit	\$ 1,322,468
Mutual funds - debt	3,905,662
Mutual funds - equity	1,717,559
Equity securities	150,827
Corporate bonds	421,060
Government and agency	2,756,229
Mortgage-backed securities	49,709
Total	\$10,323,514

---

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, 2006, are summarized as follows:

---

Current:	
Student tuition and fees	\$ 348,813
Allowance for doubtful accounts	(142,456)
Federal grants and contracts	324,026
State and local grants and contracts	43,577
Sales and services of education departments	13,310
Auxiliary services	792,562
Capital appropriation	2,000,000
Other	86,229
Net accounts receivable	\$3,466,061
Noncurrent:	
Advance receivable	\$ 200,000
Net accounts receivable	\$ 200,000

---

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

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

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2006, the allowance for uncollectible student accounts is valued at \$142,456.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors.

Reimbursements due for these services at June 30, 2006, are \$655,434 and are included in accounts receivable - auxiliary enterprises.

The University advanced \$200,000 to Sodexo, 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, 2006, are summarized as follows:

---

Unconditional promises expected to be collected in:	
Less than one year	\$ 480,879
One year to five years	224,105
	704,984
Less discounts to net present value	23,908
Less allowance for uncollectible contributions	51,197
Net contributions receivable	\$ 629,879

---

A receivable from one donor accounts for approximately 30.5% 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, 2006. 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 - ASSETS HELD IN TRUST BY OTHERS**

The Foundation has a 30% interest in a trust created by an estate. The fair market value of the trust was \$3,409,646 at June 30, 2006.

The Foundation is the named beneficiary of a charitable lead annuity trust under which the Foundation receives quarterly payments of \$11,000 through 2014. The present value of the expected cash payments is included in assets held under trust.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 □ CAPITAL ASSETS**

Capital assets activity of the University for the year ended June 30, 2006, is summarized as follows:

	Beginning Balance July 1, 2005	Increases	Decreases	Ending Balance June 30, 2006
Capital assets not being depreciated:				
Land and improvements	□ 632,392	□ 138,830	□ -	□ 771,222
Construction in progress	837,932	7,821,987	-	8,659,919
Art work and historical treasures	200,248	11,500	30,800	180,948
Total capital assets not being depreciated	<u>1,670,572</u>	<u>7,972,317</u>	<u>30,800</u>	<u>9,612,089</u>
Other capital assets:				
Land improvements	2,621,749	-	-	2,621,749
Buildings and improvements	55,165,307	726,564	294,828	55,597,043
Computer software	131,895	-	-	131,895
Machinery, equipment, and other Vehicles	2,432,011 392,080	172,418 -	61,180 77,463	2,543,249 314,617
Total other capital assets at historical cost	<u>60,743,042</u>	<u>898,982</u>	<u>433,471</u>	<u>61,208,553</u>
Less accumulated depreciation for:				
Land improvements	1,936,024	53,552	-	1,989,576
Buildings and improvements	32,855,585	1,516,659	294,828	34,077,416
Computer software	43,965	43,965	-	87,930
Machinery, equipment, and other Vehicles	2,003,943 350,205	190,128 19,659	61,180 77,463	2,132,891 292,401
Total accumulated depreciation	<u>37,189,722</u>	<u>1,823,963</u>	<u>433,471</u>	<u>38,580,214</u>
Other capital assets, net of accumulated depreciation	<u>23,553,320</u>	<u>(924,981)</u>	<u>-</u>	<u>22,628,339</u>
Capital assets, net of accumulated depreciation	<u>□25,223,892</u>	<u>□ 7,047,336</u>	<u>□ 30,800</u>	<u>□32,240,428</u>

## FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

### NOTE 7 □ OTHER ASSETS

Included in the Foundation's other assets is the ownership in various parcels of real estate that are held with the intent to sell. The property is reported at the lower of cost or market.

In addition, the Foundation has ownership in the cash surrender value of various life insurance policies valued at □28,189 as of June 30, 2006.

### NOTE 8 □ PENSION PLAN

The Retirement Division of the State Budget and Control Board maintains five 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 five 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.

Effective July 1, 2005, employees participating in the SCRS were required to contribute 6.25 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, 2006, 2005, and 2004, were approximately □1,290,000, □1,160,000, □1,056,000, 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 □25,600 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 □5,300 of pension costs for employees on educational leave with employees paying approximately □4,400.

#### ***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, 2006, 2005, and 2004, were approximately □43,100, □40,700, and □38,200, respectively, and equaled the required contributions of 10.3 percent (excluding the

## FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

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 2006.

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 \$410,000 (excluding the surcharge) from the University as employer and approximately \$339,000 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 \$8,100 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 \$2,400 of pension costs for employees on educational leave with employees paying approximately \$2,000. 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.

## **NOTE 9 □ POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

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

## FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

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 27,000 State retirees met these eligibility requirements as of June 30, 2005.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately \$1,651,000 for the year ended June 30, 2006. These amounts were remitted to the Office of Insurance Services. As discussed in Note 8, the University paid approximately \$745,000 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 10 □ 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 \$614,800 at June 30, 2006, of which approximately \$459,600 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. 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.

The Foundation is a 50□ residuary beneficiary of a marital trust, which has a value of approximately \$1,220,330 as of June 30, 2006. The Foundation will receive its share of any remaining assets of the trust upon the death of the primary beneficiary.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 □ DEFERRED REVENUES AND UNEARNED STUDENT REVENUES**

Deferred revenues and unearned student revenues as of June 30, 2006, are summarized as follows:

---

Current:	
Student tuition and fees	□ 524,150
Grants and contracts	76,405
Capital	1,650,000
Housing rentals	108,412
Other	19,843
Net deferred revenues and unearned student revenues	<u>□2,378,810</u>
Noncurrent:	
Housing rental	<u>□2,936,167</u>
Net deferred revenues and unearned student revenues	<u>□2,936,167</u>

---

**NOTE 12 □ LEASE OBLIGATIONS**

Future commitments for capital leases as of June 30, 2006, are as follows:

---

	Year Ending June 30,	Capital Lease Payments
	2007	□ 35,056
	2008	35,056
	2009	15,184
Total minimum lease payment		<u>85,296</u>
Less: Interest		2,318
Executory and other costs		37,546
Principal outstanding		<u>□ 45,432</u>

---

**Capital Leases**

Capital leases for various 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, 2006. Accumulated amortization of the leases on this equipment totaled

□51,394 at June 30, 2006, resulting in a book value of □34,263. Current year amortization expense on capital leases was □17,131 and is included in depreciation expense. Interest expense on capital leases was □2,192. The capital leases are with external parties.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**Operating Leases**

During fiscal year 2006, the University paid \$71,122 for copier leases on a cost per copy basis to external parties. The University also paid \$47,883 on equipment under cancelable operating leases. Approximately \$15,600 was with other State agencies and the remainder was with external parties.

**Capital Leases – Lessor**

During the year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per year. No assets or liabilities related to this transaction are reflected in the

University's financial statements due to immateriality of the amounts involved.

**NOTE 13 – BONDS AND NOTES PAYABLE**

**Bonds Payable**

Bonds payable consisted of the following at June 30, 2006.

	Interest Rates	Maturity Dates	Balance
State Institution Bonds, series 2005C	3.20 – 4.00%	2007 – 2015	\$ 1,170,000

During the current year, the University borrowed \$1,275,000 through State Institution Bonds. The series 2005C State Institution Bonds are not subject to redemption prior to their stated maturity dates. General obligation bonds of the State are backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of annual debt requirements for the payment of principal and interest. The legal debt margin for general obligation bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received from tuition and fees for the preceding fiscal year. Tuition fees, as defined by code section 59-107-30, of \$205,609 were collected during fiscal year 2005, which results in a legal annual debt service at June 30, 2006 of \$185,048.

In prior years, the University defeased certain bonds by placing the proceeds received from the Francis Marion University 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, 2006, \$2,300,000 of bonds outstanding are considered defeased.

The scheduled maturities of State Institution Bonds are as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2007	\$ 110,000	\$ 41,819	\$ 151,819
2008	115,000	37,419	152,419
2009	120,000	32,819	152,819
2010	125,000	28,019	153,019
2011	130,000	24,019	154,019
2012 – 2015	570,000	50,981	620,981
Totals	<u>\$ 1,170,000</u>	<u>\$ 215,076</u>	<u>\$ 1,385,076</u>

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**Note Payable**

The University's note payable consists of the following at June 30, 2006:

	Interest Rate	Maturity Date	Balance
Master purchase line agreement to acquire a PBX telephone switch dated January, 2002	3.65%	February, 2007	40,887

The scheduled maturities of the note payable are as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2007	40,887	499	41,386
Totals	40,887	499	41,386

The Foundation note payable consists of the \$213,705 loan due to the University as described in Note 16. The Foundation also has an unsecured note payable with a local financial institution for \$1,127,346 with a fixed interest rate of 6.125% with interest payable quarterly. The entire principal is due at maturity on May 30, 2008.

**NOTE 14 LONG-TERM LIABILITIES**

Long-term liability activity of the University for the year ended June 30, 2006, is as follows:

	June 30, 2005	Additions	Reductions	June 30, 2006	Due within One year
<b>Bonds, note, and capital leases payable:</b>					
Bonds payable	-	1,275,000	105,000	1,170,000	110,000
Note payable	108,991	-	68,104	40,887	40,887
Capital leases payable	62,872	-	17,440	45,432	18,149
Total payables	171,863	1,275,000	190,544	1,256,319	169,036
<b>Other liabilities:</b>					
Accrued compensated absences	1,490,362	1,231,050	1,222,079	1,499,333	1,243,531
Perkins federal capital contributions	1,655,415	-	21,472	1,633,943	-
Student deposits	148,275	84,225	76,500	156,000	74,450
Deferred housing rentals	3,152,991	-	108,412	3,044,579	108,412
Total other liabilities	6,447,043	1,315,275	1,428,463	6,333,855	1,426,393
Total long-term liabilities	6,618,906	2,590,275	1,619,007	7,590,174	1,595,429

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 15 □ 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 specific purposes. These restrictions are discussed in Note 16. 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 16 □ COMPONENT UNIT**

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2006, 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.  | □ 445,738   |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes □1,764 owed to the University at June 30, 2006, and included in amount due from the Foundation.) The University recorded these awards as gift revenue and the applicable operating expense.   | □ 41,516    |
| 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.  | □ 72,625    |
| 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 reductions of the applicable operating expenses.  | □ 74,465    |
| e) | Group life insurance premium payments made by the University and funded by the Foundation. (Includes □639 owed to the University at June 30, 2006, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefits expense.  | □ 8,061     |
| f) | Architect fees paid by the Foundation for the nursing building. The University recorded these amounts as capital gift revenue and construction in progress.  | □ 93,042    |
| g) | Payments made by the Foundation to the University for the nursing building construction. The University recorded these amounts as capital gift revenue and construction in progress.   | □ 5,037,469 |
| h) | Rent for a motor vehicle used by the University's President in the amount of □7,712 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included □7,097 for club memberships, □7,709 for other goods and services, □1,323 for furniture and appliances, □18,177 for special events and □7,368 for travel. The University recorded these amounts as gift revenue and the applicable operating expense. |             |

## FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

- i) The University continued 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 2006, the endowment earned \$8,814 and an award was made to the University for \$3,500. The \$5,314 excess was applied to the principal. As of June 30, 2006, the outstanding principal balance is \$213,705. 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.
- j) The University leased land to the Foundation in 2004 for \$1 per year for the faculty-alumni house. In November 2005, the Francis Marion University Real Estate Foundation purchased the house from the Foundation and gifted it to the University (additional information is discussed in Note 17). According to the original agreement, the University agreed to pay the Foundation \$30,000 per year for use of the facility and receives 70% of the profit from the Foundation or pays the Foundation 70% of any loss. For the period prior to the gift, the University paid the Foundation \$11,014 for use of the facility. The profit split was \$5,629 and is included in the amount due from Foundation. The Foundation has included this amount in other program expenses. Effective with the transfer of the Cottage to the University, the University agreed to pay the Foundation \$31,250 per year to manage the facility. During 2006 the University paid the Foundation \$20,236 in management fees. The Foundation owes the University \$3,620 for revenue collected which is included in due from Foundation.

---

### NOTE 17 RELATED PARTIES

The FMU Student Housing, LLC (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 the 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 2006 is \$108,109, a portion of the advanced rent paid by the Real Estate Foundation in 2004.

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 LLC. Collections due to the LLC at June 30, 2006, are \$333,868 and are included in accounts payable.

During the fiscal year ended June 30, 2006, the LLC purchased the BB&T Amelia Wallace Cottage from the Francis Marion University Foundation for \$250,000. The Cottage and contents were valued at approximately \$769,000 and the \$519,000 was recorded by the Francis Marion University Foundation as a gift to the LLC. The Cottage and contents were donated to the University by the LLC. The LLC also purchased General Francis Marion's Commission for \$9,500 which was subsequently donated to the University. Additionally, the LLC contributed \$17,170 to the University for ground improvements.

On June 6, 2006, one of the apartment style facilities owned by the University was destroyed by fire. Insurance proceeds of \$681,096 were paid for the loss of the building and contents. The University remitted the insurance proceeds to the LLC in accordance with bond covenants. The facility was fully depreciated so the University did not recognize a

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

loss. The LLC owes the University \$18,722 for reimbursement of expenses related to the fire which is included in accounts receivable - Auxiliary Enterprises.

**NOTE 18 - 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 losses arising from theft or misappropriation.

**NOTE 19 - EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended June 30, 2006, are summarized as follows:

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$13,003,484	\$3,024,984	\$1,057,877	\$34,394	-	-	\$17,120,739
Research	62,224	9,940	34,728	-	-	-	106,892
Public service	348,843	77,216	669,363	969	-	-	1,096,391
Academic support	1,941,626	500,405	1,458,963	11,432	-	-	3,912,426
Student services	2,170,372	552,669	1,433,550	28,930	-	-	4,185,521
Institutional support	3,195,250	912,721	811,156	40,308	-	-	4,959,435
Operation and maintenance of plant	2,526,789	882,623	2,089,086	1,452,612	-	-	6,951,110
Depreciation	-	-	-	-	-	1,823,963	1,823,963
Scholarships	-	-	-	-	3,413,422	-	3,413,422
Auxiliary Enterprises	153,971	28,962	262,841	51,069	-	-	496,843
<b>Total operating expenses</b>	<b>\$23,402,559</b>	<b>\$5,989,520</b>	<b>\$7,817,564</b>	<b>\$1,619,714</b>	<b>\$3,413,422</b>	<b>\$1,823,963</b>	<b>\$44,066,742</b>

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 20 □ 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, 2006:

---

**NON-CAPITAL APPROPRIATIONS**

Current year's appropriations:	
Original appropriations per Annual Appropriations Act	□ 14,658,680
Supplemental Appropriations	
Pay Plan Reimbursement	484,900
Health and Dental Insurance	106,001
Omega Project	18,853
Francis Marion Trail	110,000
From Commission on Higher Education:	
Academic Incentive Endowment Match	10,951
Total non-capital appropriations recorded as current year revenue	<u>□ 15,389,385</u>

**CAPITAL APPROPRIATIONS**

Supplemental Appropriations	
Center for the Child Construction	□ 2,000,000
Nursing Building Construction	1,500,000
Total capital appropriations recorded as current year revenue	<u>□ 3,500,000</u>

**RESEARCH INFRASTRUCTURE BOND PROCEEDS**

Proceeds drawn for deferred maintenance projects	<u>□ 336,302</u>
--	------------------

---

The State issued the University □1,395,594 in Research Infrastructure Bonds to be used for deferred maintenance projects. Funds can be requested when project expenditures have been incurred. The University is not required to repay these funds.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 21 □ STATEMENT OF ACTIVITIES**

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

	Year ended June 30,	
	2006	2005
Charges for services	□25,546,326	□23,559,854
Operating grants and contributions	2,298,001	2,181,808
Capital grants and contributions	6,007,405	369,490
Less: expenses	(44,129,677)	(39,693,414)
Net program revenues (expenses)	<u>(10,277,945)</u>	<u>(13,582,262)</u>
Transfers:		
State appropriations	15,389,385	13,454,008
Capital appropriations	3,500,000	-
Research infrastructure bond proceeds	336,302	-
Capital improvement bond proceeds	-	2,090
Total transfers	<u>19,225,687</u>	<u>13,456,098</u>
Changes in net assets	8,947,742	(126,164)
Net assets - beginning	<u>30,641,506</u>	<u>30,767,670</u>
Net assets - ending	<u>□39,589,248</u>	<u>□30,641,506</u>

**NOTE 22 □ SUBSEQUENT EVENTS**

In December 2005, the University received a □10,000,000 grant from the Drs. Bruce and Lee Foundation to be used in the construction of a Performing Arts Center in Florence, SC. The funding schedule for the grant specifies payments of □2,000,000 in each of the years 2006 through 2010 but prepayment is allowed in the agreement at the discretion of the Drs. Bruce and Lee Foundation. As of June 30, 2006, the University has received □1,650,000. Additional funding is to be from the State in the amount of □7,000,000 in 2006-2007

appropriations and □1,000,000 from the City of Florence (the City), which was received in July 2006. With the inclusion of these amounts the funding for the construction of the Center for the Performing Arts, currently budgeted at □18,000,000, is complete. This grant is part of a multi-partnership agreement that gives the University the responsibility for the construction of the Performing Arts Center but operational and maintenance cost for the center will be shared with the City. The Performing Arts Center will be governed by a seven member board with the University appointing four members and the City appointing three members.

**Francis Marion University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

Federal Grantor Program Title	Federal CFDA Number	Grant Contract Number	Total Expenditures
<b>Direct Programs:</b>			
<b>U.S. Department of Education</b>			
Federal Supplemental Educational Opportunity Grant	84.007	PO7A53784	134,789
Federal Work-Study Program	84.033	PO33A53784	152,034
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A53784	2,106,174
Federal Pell Grant Program	84.063	PO63P56065	4,057,200
<b>U.S. Department of Health and Human Services</b>			
Biomedical Research and Research Training	93.859	5R25GM066318-03	20,752
<b>National Science Foundation</b>			
Mathematical and Physical Sciences	47.049	CHE-0315152	56,853
Education and Human Resources	47.076	DUE-0536797	31,816
<b>Total Direct Programs</b>			6,559,618
<b>Indirect Programs:</b>			
<b>U.S. Department of Education</b>			
Passed Through National Writing Project Corp. National Writing Project	84.928	00-SC10	54,038
Passed Through South Carolina Commission on Higher Education Improving Teacher Quality State Grants	84.367		156,566
Passed Through South Carolina Department of Education Mathematics and Science Partnerships	84.366	06-MS 304-01	111,049
Passed Through South Carolina Department of Education Special Education-Grants to States	84.027	06-CO-304	78,175
<b>National Science Foundation</b>			
Passed through the Mathematical Association of America Mathematical and Physical Sciences	47.049	DMS-0241090	882
<b>U.S. Department of Health and Human Services</b>			
Passed through the University of Florida Fogarty International Research Collaboration Award	93.394	UF-EIES-0308002-FMU	20,513
<b>Total Indirect Programs</b>			421,223
<b>Total Federal Assistance</b>			6,980,841

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

**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. Richard H. Gilbert, Jr., CPA,  
Deputy 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, 2006, and have issued our report thereon dated August 30, 2006. 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe the reportable condition described above is a material weakness.

**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.



1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: [cpa@rogerslaban.com](mailto:cpa@rogerslaban.com)

*Investment Advisory Services Offered  
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global  
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through  
1st Global Insurance Services, Inc.*

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 & Lalan, PA*

August 30, 2006



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

Mr. Richard H. Gilbert, Jr., CPA,  
Deputy 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, 2006. 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 each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed two instances of noncompliance which are described in the accompanying schedule of findings and questioned costs as items 06-2 and 06-3.

*Internal Control over Compliance*

The 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.

 • C P A • 

1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: [cpa@rogerslaban.com](mailto:cpa@rogerslaban.com)

*Investment Advisory Services Offered  
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global  
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through  
1st Global Insurance Services, Inc.*

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-2 and 06-3.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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 & Lalan, PA*

August 30, 2006

**FRANCIS MARION UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

**SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS:**

1. An unqualified opinion dated August 30, 2006 on the financial statements of the University for the year ended June 30, 2006 was issued.
2. A reportable condition related to internal control over financial reporting was 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 programs dated August 30, 2006 was issued.
5. Findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133 are reported as findings 06-2 and 06-3.
6. The major programs of the University are as follows:

<u>CFDA □</u>	<u>Program Title</u>
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**

**06-1 RETAINAGE PAYABLE NOT RECORDED**

STATEMENT OF CONDITION:

The University did not record approximately □261,000 in retainage payable on two construction projects.

CRITERIA:

Generally accepted accounting principles require that all material liabilities be recorded.

EFFECT OF CONDITION:

Construction in progress and current liabilities were understated.

CAUSE OF CONDITION:

Change in personnel and failure to perform an adequate review of all payment request for construction contracts.

RECOMMENDATION:

We recommend that additional care be taken to ensure that all liabilities are properly recorded.

## FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

### **06-2. FINANCIAL AID AWARDED IN EXCESS OF AMOUNT ALLOWED □ CFDA □ 84.033 FEDERAL WORK STUDY**

#### STATEMENT OF CONDITION:

The University paid two students federal work-study financial aid in excess of the amount that they were awarded. This resulted in the students receiving financial aid in excess of the amount allowed. The University overpaid a total of \$164 to all students because of this deficiency.

#### CRITERIA:

Federal regulations permit a \$300 over-award tolerance for all campus-based financial aid programs.

#### EFFECT OF CONDITION:

The University awarded excess funds to the two students.

#### CAUSE OF CONDITION:

Failure to monitor cumulative amounts paid to students for work-study.

#### RECOMMENDATION:

We recommend that the University monitor the cumulative amounts paid to the students for the year to ensure that they do not receive in excess of their awarded amounts.

### **06-3. INCONSISTENT DATES USED IN CALCULATION OF WITHDRAWING STUDENTS □ CFDA □ 84.007 SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT; CFDA □ 84.033 FEDERAL WORK STUDY; CFDA □ 84.038 FEDERAL PERKINS LOAN PROGRAM; CFDA □ 84.063 PELL GRANT PROGRAM**

#### STATEMENT OF CONDITION:

The University was not consistent in entering the dates into the system used to calculate refunds due back to the government or the lending institutions for the financial aid programs. For the fall semester, they used the last day of exams and for the spring semester, they used the last day of classes. In addition, they did not take into account the five-day spring break as a reduction in the number of days in the calculation.

#### CRITERIA:

Federal regulations do not specify whether to use the end of classes or end of exam period in the calculation. Federal regulations do require that scheduled breaks of five consecutive days or more be taken into account.

#### EFFECT OF CONDITION:

The University is inconsistent in its calculation of refunds due because of students that withdraw from school.

#### CAUSE OF CONDITION:

Unknown

#### RECOMMENDATION:

We recommend that the University establish a policy on how the ending date is to be determined and also ensure that all scheduled breaks of five or more consecutive days are taken into account.

# **MANGAGEMENT'S RESPONSE**

## **APPENDIX A**

**MANAGEMENT RESPONSES TO AUDIT FINDINGS  
CORRECTIVE ACTION PLAN**

**Audit  
Ref No.**

**06-01 RETAINAGE PAYABLE NOT RECORDED**

In an end-of-year status report, entries for the categories "Retainage Payable" and "Amounts Legally Committed but Work Not Done" for two construction projects were recorded on the incorrect lines. The total amount reported was correct, but the two entries were misaligned. This was an error of oversight and procedures have since been revised to provide verification by a second staff member. The procedures have been reviewed by all appropriate staff members.

**06-02 FINANCIAL AID AWARDED IN EXCESS OF AMOUNT ALLOWED -  
CFDA # 84.033 FEDERAL WORK STUDY**

In fiscal year 2005-06 two students were paid Federal Work Study (FWS) funds of \$6.59 and \$157.50 beyond the FWS amount awarded them. The procedure for monitoring Federal Work Study awards has been revised so that supervisors are notified by the Financial Assistance Office when they are within a predetermined amount of disbursing the total FWS amount awarded to an individual student. The supervisor may then pay the student from other funds or terminate the students' employment.

**06-03 INCONSISTENT DATES USED IN CALCULATION OF  
WITHDRAWING STUDENTS - CFDA # 84.077 SUPPLEMENTAL  
EDUCATIONAL OPPORTUNITY GRANT; CFDA # 84.033 FEDERAL  
WORK STUDY; CFDA # 84.038 FEDERAL PERKINS LOAN  
PROGRAM; CFDA # 84.063 PELL GRANT PROGRAM**

For fiscal year 2005-06 Francis Marion University used published federal regulations to calculate student fee refunds. These regulations do not specify the method to use to determine the number of days in a term and the University was inconsistent in the method of calculation used. We have now strengthened the internal policy to specify exactly how the days will be calculated and require verification by a second staff member to insure consistency and compliance with federal regulations. We have calculated the total amount of this error to be approximately \$178.00.

Contact:  
John J. Kispert  
Vice President for Business Affairs  
Francis Marion University  
PO Box 100547  
Florence, SC 29501