

**FRANCIS MARION UNIVERSITY  
FLORENCE, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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


September 18, 2002

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

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 2002, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**FRANCIS MARION UNIVERSITY**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Francis Marion University, (the University) as of and for the year ended June 30, 2002 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 discussed in Note 1 to the financial statements, the accompanying financial statements of the University are intended to present the financial position, results of operations, and cash flows of only the portion of the funds of the State of South Carolina that are attributable to the transactions of the University and its component unit and do not include any other divisions, instrumentalities or any component units of the State of South Carolina.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

These financial statements exclude the related entity described in Note 13 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

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As described in Note 1 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments; Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for For State and Local Governments and Statement # 38, Certain Financial Statement Note Disclosures as of July 1, 2001. This results in a change in the format and content of the financial statements. Also as discussed in Note 18, the University determined that certain revenues had been overstated. Furthermore, as discussed in Notes 5 and 18, the University changed its capitalization policy. The changes have been accounted for as prior period adjustments and accounting changes.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the financial statements but are 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2002, 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 grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Rogers + Lalan, PA*

August 22, 2002

# FRANCIS MARION UNIVERSITY

## Management's Discussion and Analysis

### ***Overview of the Financial Statements and Financial Analysis***

Francis Marion University is proud to present its financial statements for fiscal year 2002. This report is prepared in accordance with Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and Governmental Accounting Standards Board Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. The financial statements differ significantly, in both form and the accounting principles utilized, from prior financial statements. This new reporting model is expected to provide more useful information to a wider range of users than did the previous model. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In future years, when prior-year information is available, a comparative analysis of financial data will be presented. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

### ***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. The purpose of the Statement of Nets Assets 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 University's equity in property, plant, and equipment owned by the institution. The next asset 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 – June 30, 2002

**Assets:**

Current assets	\$ 8,276,988
Capital assets, net of accumulated depreciation	28,665,832
Other noncurrent assets	<u>2,416,187</u>
<b>Total assets</b>	<u>39,359,007</u>

**Liabilities**

Current liabilities	3,058,595
Noncurrent liabilities	<u>5,874,257</u>
<b>Total liabilities</b>	<u>8,932,852</u>

**Net assets**

Invested in capital assets, net of debt	23,865,124
Restricted – nonexpendable	200,000
Restricted – expendable	808,766
Unrestricted	<u>5,552,265</u>
<b>Total net assets</b>	<u>\$ 30,426,155</u>

***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  
for the year ended June 30, 2002

Operating revenues	\$ 16,869,273
Operating expenses	<u>34,350,975</u>
Operating loss	(17,481,702)
Nonoperating revenues and expenses	<u>17,040,215</u>
Loss before other revenues, expenses, gains, or losses	(441,487)
Other revenues, expenses, gains, or losses	<u>493,744</u>
Increase in net assets	52,257
Net assets – beginning of year, as originally reported	78,690,219
Cumulative effect of changes in accounting principles and correction of errors	<u>(48,316,321)</u>
Net assets – beginning of year, as restated	<u>30,373,898</u>
Net assets at end of year	<u>\$ 30,426,155</u>

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

- State budget cuts during the year resulted in \$539,434 less in appropriations than in fiscal year 2001.
- Federal and state grants for scholarships increased approximately \$691,000.
- Depreciation expense of \$1,889,269 was recorded as required by GASB Statement 35.
- Auxiliary revenue has decreased by approximately \$2,248,000 and auxiliary expenses have decreased approximately \$2,252,000. The change is primarily due to the privatization of dining services and the bookstore.
- The cumulative effects of changes in accounting principles and correction of errors are the result of: accumulated depreciation of capital assets; changes due to the revised definition of capital assets; the elimination of authorized but unissued capital improvement bonds; the Perkins loan program federal liability; and the recording of summer tuition revenue.

**Statement of Cash Flows**

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with 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. This section displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities.



This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects 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.

Condensed Statement of Cash Flows for the Year ended June 30, 2002

Cash provided (used) by:	
Operating activities	\$ (14,886,247)
Noncapital financing activities	16,794,225
Capital and related financing activities	(1,717,951)
Investing activities	<u>374,609</u>
Net change in cash	564,636
Cash and cash equivalents – beginning of year	<u>6,937,306</u>
Cash and cash equivalents – end of year	<u><u>\$ 7,501,942</u></u>

**Capital Asset and Debt Activity**

Significant capital asset additions include a swimming pool and pool house, a gym renovation, a PBX telephone switch, and road repaving.

There were no new capital bonds authorized or revenue bonds issued in fiscal year 2002. The University entered into a master purchase line agreement of \$323,835 to acquire the PBX telephone switch. There have been no significant changes in credit ratings or debt limitations that might affect future financing for the University.

**Economic Outlook**

The University is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the University's economic outlook during the fiscal year that started July 1, 2002.

The University's overall financial position is sound. Even with fluctuations in state funding, the institution's level of operations has remained stable. The current fiscal year promises to be similar to that of the last several years, with resources being closely guarded in order to maintain the University's ability to react to changing economic conditions.

**FRANCIS MARION UNIVERSITY  
STATEMENT OF NET ASSETS**

**JUNE 30, 2002**

**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 7,036,017
Accounts receivable (net of provision for doubtful accounts of \$28,015)	613,166
Accrued interest receivable	89,260
Capital improvement bonds receivable	35,811
Prepaid expenses	413,064
Inventories	89,670
Total current assets	8,276,988

**Noncurrent Assets:**

Restricted cash and cash equivalents	465,925
Notes receivable	200,000
Long-term accounts receivable	18,458
Perkins loans receivable	1,731,804
Capital assets, net of accumulated depreciation	28,665,832
Total noncurrent assets	31,082,019
Total assets	39,359,007

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	167,894
Accrued payroll and related liabilities	207,937
Accrued compensated absences - current portion	806,025
Accrued interest payable	44,703
Student deposits - current portion	95,889
Deferred revenues and unearned student revenues	585,659
Leases payable - current portion	32,891
Note payable - current portion	61,059
Bonds payable - current portion	1,000,000
Deposits held for others	56,538
Total current liabilities	3,058,595

**Noncurrent Liabilities:**

Accrued compensated absences	440,898
Student deposits	105,251
Leases payable	18,774
Note payable	237,984
Bonds payable	3,450,000
Perkins liability	1,592,187
Other long term liabilities	29,163
Total noncurrent liabilities	5,874,257
Total liabilities	8,932,852

**NET ASSETS:**

Invested in capital assets, net of related debt	23,865,124
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	200,000
Expendable:	
Scholarships and fellowships	231,151
Research	7,288
Instructional department uses	26,386
Loans	373,054
Capital projects	148,593
Other	22,294
Unrestricted	5,552,265
Total net assets	\$ 30,426,155

See accompanying Notes to Financial Statements.

**FRANCIS MARION UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OPERATING REVENUES:**

Student tuition and fees (net of scholarship allowances of \$3,594,097)	\$ 8,437,830
Federal grants and contracts	3,314,417
State grants and contracts	1,937,742
Local grants and contracts	60,601
Non-governmental grants and contracts	519
Sales and services of education departments	230,041
Sales and services of auxiliary enterprises	2,523,596
Other operating revenues	364,527
Total operating revenues	<u>16,869,273</u>

**OPERATING EXPENSES:**

Salaries and wages	18,595,015
Benefits	4,767,980
Supplies and other services	5,111,626
Utilities	1,609,765
Scholarships	2,377,320
Depreciation	1,889,269
Total operating expenses	<u>34,350,975</u>
Operating income (loss)	<u>(17,481,702)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	15,827,756
Gifts	1,078,923
Investment income	378,820
Interest and other fees on capital asset related debt	(254,801)
Other nonoperating revenues (expenses)	9,517
Net nonoperating revenue	<u>17,040,215</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(441,487)</u>
Capital improvement bonds	322,874
Capital gifts	170,870
Increase (decrease) in net assets	<u>52,257</u>

**NET ASSETS**

Net assets - beginning of year, as originally reported	78,690,219
Correction of errors:	
Capital improvement bond revenue	(776,184)
Cumulative effects of changes in accounting principle:	
Perkins loan program Federal liability	(1,572,369)
Accumulated depreciation for capital assets	(30,267,114)
Changes due to revised definition of capital assets	(15,656,790)
2002 summer semester revenues recognized in prior year	(43,864)
Net assets - beginning of year as restated	<u>30,373,898</u>
Net assets - end of year	<u>\$ 30,426,155</u>

See accompanying Notes to Financial Statements.

**FRANCIS MARION UNIVERSITY  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2002**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Tuition and fees	\$ 8,443,667
Grants and contracts	5,334,093
Auxiliary enterprises	3,585,701
Payments to suppliers	(6,694,345)
Payments to employees	(17,881,064)
Payments for benefits	(5,831,029)
Payments to students	(2,379,124)
Loans to students	(228,227)
Collection of loans	193,015
Sales and services of education activities	164,471
Other receipts	406,595
Net cash (used) by operating activities	<u>(14,886,247)</u>

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:**

State appropriations	15,827,756
Inflows from Stafford loans	9,336,895
Outflows from Stafford loans	(9,346,097)
Gifts	1,022,112
Inflows from agencies	86,957
Outflows to agencies	(95,891)
Other inflows	238
Other outflows	(37,745)
Net cash flow provided by noncapital financing activities	<u>16,794,225</u>

**CASH FLOW FROM CAPITAL AND RELATED FINANCING  
ACTIVITIES:**

Capital Appropriations	287,063
Capital grants and gifts received	12,313
Purchases of capital assets	(747,776)
Principal paid on revenue bonds	(980,000)
Principal paid on capital leases	(31,534)
Principal paid on note payable	(24,792)
Interest and fees paid	(233,225)
Net cash (used) by capital activities	<u>(1,717,951)</u>

**FRANCIS MARION UNIVERSITY  
STATEMENT OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2002**

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on investments	374,609
Net cash flows provided by investing activities	374,609
Net change in cash	564,636
Cash and cash equivalents - beginning of year	6,937,306
Cash and cash equivalents - end of year	\$ 7,501,942

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

Operating (loss)	\$ (17,481,702)
Reclass nonoperating revenues to operating	47,262
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Depreciation expense	1,889,269
Bad debts	17,002
Loan cancellations	29,547
Change in asset and liabilities:	
Receivables net	278,120
Inventories	(8,737)
Loans to students	(35,212)
Deferred charges and prepayments	1,490
Accounts payable	81,273
Accrued payroll and related liabilities	9,433
Deferred revenue	167,752
Perkins liability	16,144
Student deposits	34,558
Compensated absences payable	67,554
Net cash (used) by operating activities	\$ (14,886,247)

**Noncash capital and related financing activities:**

The University acquired new equipment with a costs of \$323,835 by financing the entire amount with a note payable.

The University disposed of equipment with a cost of \$43,463 and accumulated depreciation of \$43,463 during the year.

**See accompanying Notes to Financial Statements.**

# FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations:** Francis Marion University is a State-supported coeducational institution of higher education. The University serves local, regional, state, national, and international communities by providing academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the public.

**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, 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. Accordingly, the financial statements include the accounts of Francis Marion University.

The University is part of the primary government of the State of South Carolina.

**Financial Statements:** The financial statement presentation for the University has been changed to meet the requirements of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments; Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for For State and Local Governments and Statement No. 38, Certain Financial Statement Note Disclosure. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

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

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

**Investments:** The University accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. 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

JUNE 30, 2002

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

**Inventories:** Inventories are for internal use and are valued at cost.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

**Deferred Revenues and Deposits:** Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include 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 during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

**Compensated Absences:** Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as components of compensation and benefit 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. This program is funded primarily by the federal government with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program which would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

# FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

**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.

**Income Taxes:** The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The FMU Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

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

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



# FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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

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

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Changes in Accounting and Restatement of Beginning Net Asset Balances:** As a result of the adoption of GASB Statement s No. 34 and 35, the University was also required to make certain changes in accounting principles. These changes are discussed in detail in Note 18.

## **NOTE 2 – CASH AND CASH EQUIVALENTS; OTHER 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. Deposits of the component unit are not under the State Treasurer's control and are deposited in a financial institution.

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)	\$ 7,036,017	Cash on hand	\$ 26,225
Restricted cash and cash equivalents (non-current):		Deposits held by State Treasurer	7,474,958
Exchange grants	292,871	Other deposits – FMU Center	759
Perkins loan funds	173,054		
 Total	 \$ 7,501,942	 Total	 \$ 7,501,942

### ***Deposits Held by State Treasurer***

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

### ***Other Deposits***

The deposits of the FMU Center are covered by federal depository insurance.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2002, are summarized as follows:

Tuition and fees	\$217,723
Less allowance for doubtful accounts	(28,015)
Federal grants and contracts	78,761
State grants and contracts	49,801
Gifts	16,649
Outsourced auxiliary services	156,283
Due from Francis Marion Foundation	27,687
Other	<u>112,735</u>
 Net accounts receivable	 <u><u>\$631,624</u></u>

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

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2002, the allowance for uncollectible student accounts is valued at \$28,015.

**NOTE 4 – LOANS AND NOTES RECEIVABLE**

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2002. 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.

Notes receivable are discussed in Note 13.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 5 – CAPITAL ASSETS**

Restated beginning capital assets as of July 1, 2001 are summarized as follows:

	<u>Balance as Previously Reported July 1, 2001</u>	<u>Effect of Changes In Accounting Principles</u>	<u>Balance as Restated July 1, 2001</u>
Capital assets not being depreciated:			
Land and improvements	\$ 632,392	\$	\$ 632,392
Construction in-progress	733,385	(17,188)	716,197
Art work and historical treasures	<u>200,248</u>	<u></u>	<u>200,248</u>
Total capital assets not being depreciated	1,566,025	(17,188)	1,548,837
Other capital assets:			
Land improvements	5,970,842	(4,072,363)	1,898,479
Buildings and improvements	53,968,060	(513,522)	53,454,538
Machinery, equipment, and other	2,440,288	(108,348)	2,331,940
Library books	10,950,776	(10,950,776)	
Vehicles	<u>403,035</u>	<u></u>	<u>403,035</u>
Total other capital assets at historical cost	73,733,001	(15,645,009)	58,087,992
Less accumulated depreciation for:			
Land improvements		(1,768,972)	(1,768,972)
Buildings and improvements		(26,482,007)	(26,482,007)
Machinery, equipment, and other	(5,406)	(1,633,981)	(1,639,387)
Vehicles		<u>(376,749)</u>	<u>(376,749)</u>
Total accumulated depreciation	(5,406)	(30,261,709)	(30,267,115)
Other capital assets, net of accumulated depreciation	<u>73,727,595</u>	<u>(45,906,718)</u>	<u>27,820,877</u>
Capital assets, net of accumulated depreciation	<u>\$ 75,293,620</u>	<u>\$ (45,923,906)</u>	<u>\$ 29,369,714</u>

The effects of changes in accounting principles are discussed in Note 18.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

Capital assets activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance <u>July 1, 2001</u>	Increases <u>                    </u>	Decreases <u>                    </u>	Ending Balance <u>June 30, 2002</u>
Capital assets not being depreciated:				
Land and improvements	\$ 632,392	\$ -	\$ -	\$ 632,392
Construction in-progress	716,197	558,400	(452,907)	821,690
Art work and historical treasures	<u>200,248</u>	<u>                    </u>	<u>                    </u>	<u>200,248</u>
Total capital assets not being depreciated	<u>1,548,837</u>	<u>558,400</u>	<u>(452,907)</u>	<u>1,654,330</u>
Other capital assets:				
Land improvements	1,898,479	305,380		2,203,859
Buildings and improvements	53,454,538	578,732		54,033,270
Machinery, equipment, and other	2,331,940	173,899	(21,961)	2,483,878
Vehicles	<u>403,035</u>	<u>21,883</u>	<u>(21,501)</u>	<u>403,417</u>
Total other capital assets at historical cost	<u>58,087,992</u>	<u>1,079,894</u>	<u>(43,462)</u>	<u>59,124,424</u>
Less accumulated depreciation for:				
Land improvements	(1,768,972)	(25,692)		(1,794,664)
Buildings and improvements	(26,482,007)	(1,582,502)		(28,064,509)
Machinery, equipment, and other	(1,639,387)	(261,946)	21,961	(1,879,372)
Vehicles	<u>(376,749)</u>	<u>(19,129)</u>	<u>21,501</u>	<u>(374,377)</u>
Total accumulated depreciation	<u>(30,267,115)</u>	<u>(1,889,269)</u>	<u>43,462</u>	<u>(32,112,922)</u>
Other capital assets, net of accumulated depreciation	<u>27,820,877</u>	<u>(809,375)</u>	<u>-</u>	<u>27,011,502</u>
Capital assets, net of accumulated depreciation	<u>\$ 29,369,714</u>	<u>\$ (250,975)</u>	<u>\$ (452,907)</u>	<u>\$ 28,665,832</u>

**NOTE 6 – PENSION PLAN**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

# FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2002**

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

### *South Carolina Retirement System*

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2002, 2001, and 2000, were approximately \$991,000, \$1,028,000, and \$980,000, 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 \$19,600 in the current fiscal year at the rate of .15 percent of compensation. Included in the actual contributions, the University paid the employer's 7.55 percent share of approximately \$8,200 of pension costs for employees on educational leave with employees paying \$4,500.

### *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, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2002, 2001, and 2000, were \$33,500, \$32,600, and \$30,600, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$650 and accidental death insurance contributions of \$650 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

# FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

## *Optional Retirement Program*

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.85 percent from the employer in fiscal year 2002.

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 \$352,000 (excluding the surcharge) from the University as employer and \$280,000 from its employees as plan members. No group-life insurance coverage was paid for these employees. 5.4 percent of the total contributions was remitted to the Retirement Division of the State Budget and Control Board. The balance was remitted directly to the respective annuity policy providers. Included in the total contribution, the University paid the employer's 7.55 percent share of approximately \$1,600 of pension costs for employees on educational leave with employees paying \$1,300. The obligation for payment of benefits resides with the insurance companies.

## *Deferred Compensation Plans*

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

## *Teacher and Employee Retention Incentive*

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

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

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

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 22,000 retirees met these requirements as of June 30, 2001.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately \$1,433,000 for the year ended June 30, 2002. As discussed in Note 6, the University paid approximately \$516,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

**NOTE 8 – CONTINGENCIES, LITIGATION, AND PROJECT 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.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

The University had outstanding commitments under construction contracts of approximately \$231,000 at June 30, 2002. 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 \$445,032 of authorized state capital improvement bonds.

**NOTE 9 – LEASE OBLIGATIONS**

Future commitments for capital leases as of June 30, 2002 were as follows:

	Year Ended June 30,	Capital Leases	Operating Leases
	2003	\$ 42,862	\$ 12,816
	2004	24,410	4,272
Total minimum lease payments		67,272	\$ 17,088
Less: Interest		(2,416)	
Executory and other costs		(13,191)	
Present value of minimum lease payments		\$ 51,665	

*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 \$143,278 as of June 30, 2002. Accumulated amortization of the leases on this equipment totaled \$76,178 at June 30, 2002. Current years amortization expense on capital leases was \$47,523 which is included in depreciation expense.

*Operating Leases*

The University's noncancelable operating lease is for use the of copier equipment which expires in 2004. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. In addition, the University pays an additional charge per copy for excess usage on the copier and has another copier on which it pays based solely on usage. Total rental payments for copier equipment were approximately \$106,000 for fiscal year 2002.



**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 10 – BONDS AND NOTES PAYABLE**

***Bonds Payable***

Bonds payable consisted of the following at June 30, 2002:

	Interest Rates	Maturity Date	Balance
Revenue refunding bonds, series 1999	3.75 – 4.40%	2003 – 2011	\$ 4,450,000

Bonds issued by the University include certain restrictive covenants. The Series 1999 Bonds are payable from and secured by a pledge of the net revenues derived by the University from the operation of various facilities after first paying the costs and expenses of operating and maintaining those facilities. Facilities include dormitories, apartment buildings, dining halls and cafeterias, and laundry. The bond rate covenant requires the University to maintain and collect rates and charges for the use of the facilities at amounts necessary to maintain certain specified earnings levels at all times after providing for the payment of expenses for administration and the operation and maintenance of the facilities as may be necessary to preserve the same in good repair and condition. The University is required to generate net revenues available for debt service of not less than 100% of the debt service payments due in each applicable bond year.

The University purchased a bond insurance policy in favor of the bond trustee for the Series 1999 bonds to secure the payment of principal and interest for a period equal to the final maturity of the bonds in case of default.

The scheduled maturities of the revenue bonds are as follows:

Year Ended	Principal	Interest	Totals
June 30,			
2003	\$1,000,000	\$178,810	\$1,178,810
2004	370,000	141,310	511,310
2005	385,000	127,435	512,435
2006	395,000	112,613	507,613
2007	430,000	97,010	527,010
2008 – 2011	1,870,000	206,440	2,076,440
Totals	\$4,450,000	\$863,618	\$5,313,618

***Notes Payable***

Notes payable consisted of the following at June 30, 2002:

Master purchase line agreement to acquire a PBX telephone switch, date January, 2002, payable in monthly installments of \$5,912, matures February, 2007, interest rate of 3.65%.

\$ 299,043

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

The scheduled maturities of the notes payable are as follows:

Year Ended June 30,	Principal	Interest	Totals
2003	\$ 61,059	\$ 9,888	\$ 70,947
2004	63,322	7,625	70,947
2005	65,670	5,277	70,947
2006	68,104	2,843	70,947
2007	40,888	499	41,387
Totals	<u>\$ 299,043</u>	<u>\$ 26,132</u>	<u>\$ 325,175</u>

**NOTE 11 – LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2002 was as follows:

	June 30, 2001	Additions	Reductions	June 30, 2002	Due within One year
Bonds payable and capital lease obligations:					
Revenue bonds	\$ 5,430,000	\$ -	\$ (980,000)	\$ 4,450,000	\$ 1,000,000
Notes payable		323,835	(24,792)	299,043	61,059
Capital lease obligations	83,199		(31,534)	51,665	32,891
Total bonds, notes and capital leases	<u>5,513,199</u>	<u>323,835</u>	<u>(1,036,326)</u>	<u>4,800,708</u>	<u>1,093,950</u>
Other liabilities:					
Accrued compensated absences	1,179,369	866,534	(798,980)	1,246,923	806,025
Perkins	1,572,369	59,235	(39,417)	1,592,187	
Arbitrage rebate		29,163		29,163	
Student deposits	173,250	266,909	(239,019)	201,140	95,889
Total other liabilities	<u>2,924,988</u>	<u>1,221,841</u>	<u>(1,077,416)</u>	<u>3,069,413</u>	<u>901,914</u>
Total long-term liabilities	<u>\$ 8,438,187</u>	<u>\$ 1,545,676</u>	<u>\$ (2,113,742)</u>	<u>\$ 7,870,121</u>	<u>\$ 1,995,864</u>

Additional information regarding Bonds Payable is included in Note 10. Additional information regarding capital lease obligations is included in Note 9.

**NOTE 12 – ENDOWMENTS**

*Donor Restricted Permanent Endowments*

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for a specific purpose. These restrictions are discussed in Note 13.

*Quasi-endowments*

While quasi-endowments are established by the governing board for the same purposes as permanent endowments, principal as well as income may be expended at the discretion of the governing board. The University's quasi-endowments are used to provide athletic and academic scholarships and other educational projects.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 13 – RELATED PARTIES**

The Francis Marion University Foundation (the Foundation), a separately chartered legal entity whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. The financial statements of this organization are to be audited by independent auditors and retained by the Foundation. The activities of this entity are not included in the University's financial statements. However, the University's statements include transactions between the University and the Foundation.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the Foundation described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, issued in May 2002, provides additional guidance which must be evaluated. In conjunction with the implementation of this statement the requirements for the Foundation will be reassessed. This statement is effective for the financial statement periods beginning after June 15, 2003.

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2002 and for the year then ended follows.

- |  |            |
|--|------------|
| a) Scholarships awarded by the University and funded by the Foundation. (Includes \$11,935 owed to the University at June 30, 2002 and included in accounts receivable.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.  | \$ 400,504 |
| b) Awards for lectures, retreats, competitions, and certain other expenses paid by the University and funded by the Foundation (includes \$4,785 owed to the University at June 30, 2002 and included in accounts receivable.) The University recorded these awards as gift revenue and the applicable operating expense.                                      | \$ 70,655  |
| 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.   | \$ 54,250  |
| d) Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expense.   | \$ 50,695  |
| e) Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$1,198 owed to the University at June 30, 2002 and included in accounts receivable.) The University recorded these amounts as gift revenue and benefit expense.   | \$ 9,056   |
| f) Rent for a motor vehicle used by the University's President in the amount of \$7,226 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included \$9,577 for club memberships and \$2,848 for travel. The University recorded these amounts as gift revenue and the applicable operating expense. |            |

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- g) The University continued a loan agreement with the Foundation in which the University initially lent the Foundation \$200,000, (all of its endowment assets), to invest with a guarantee of a minimum annual return of 7%. The note receivable is due on demand. In addition, the net balance of excess earnings (\$0 at June 30, 2002) is also to be loaned to the Foundation for investment and is reported as accounts receivable. Interest earned and due from the Foundation to the University as of June 30, 2002 is \$14,000 which is included in investment income and accounts receivable. This is based on the 7% guaranteed return. Total losses on the endowment fund assets were \$715 for fiscal year 2002. 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.
- h) The foundation made a \$600 interest-free loan to the Francis Marion University Center for Research and Professional Service in 2001. This loan was increased to \$838 in June, 2002.
- i) The University has a \$27,687 a receivable due from the Foundation for a land improvement project. Payment will be made from receipt of pledges to the Foundation.

**NOTE 14 – 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

**FRANCIS MARION UNIVERSITY  
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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 15 – OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended June 30, 2002 are summarized as follows:

	Salaries and <u>Wages</u>	Benefits	Supplies and other <u>Services</u>	Utilities	Scholarships	Depreciation	Total
Instruction	\$ 10,127,424	\$ 2,405,955	\$ 670,784	\$ 33,367	\$ -	\$ -	\$ 13,237,530
Research	14,646	2,502	6,696				23,844
Public service	194,806	34,076	297,890	57			526,829
Academic support	1,564,907	425,582	1,172,604	19,733			3,182,826
Student services	1,646,072	432,108	1,006,080	17,483			3,101,743
Institutional support	2,699,364	732,532	323,678	16,689			3,772,263
Operation and maintenance of plant	2,036,137	673,960	919,304	1,146,744			4,776,145
Depreciation						1,889,269	1,889,269
Scholarships					2,377,320		2,377,320
Auxiliary enterprises	<u>311,659</u>	<u>61,265</u>	<u>714,590</u>	<u>375,692</u>			<u>1,463,206</u>
Total expenses	<u>\$ 18,595,015</u>	<u>\$ 4,767,980</u>	<u>\$ 5,111,626</u>	<u>\$ 1,609,765</u>	<u>\$ 2,377,320</u>	<u>\$ 1,889,269</u>	<u>\$ 34,350,975</u>

**NOTE 16 – 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, 2002:

**NON-CAPITAL APPROPRIATIONS**

Current year's appropriations:

Original appropriations per Annual Appropriations Act	\$ 16,339,236
Mid-year appropriation reductions	(1,081,062)
Supplemental appropriations (Proviso 63C.9)	501,849
From Commission on Higher Education:	
Academic Incentive Endowment Match	10,605
Performance Improvement Award	<u>57,128</u>

Total non-capital appropriations recorded as current year revenue \$ 15,827,756

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**NOTE 17 – STATEMENT OF ACTIVITIES**

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

Charges for services	\$ 11,555,994
Operating grants and contributions	6,392,202
Capital grants and contributions	493,744
Earnings on endowments	14,000
Other	47,262
Less: expenses	<u>(34,605,776)</u>
Net program revenue	<u>(16,102,574)</u>
General revenues:	
Earnings on investments	364,820
Transfers:	
State appropriation	15,827,756
Transfers out to state agencies	<u>(37,745)</u>
Total general revenue and transfers	<u>16,154,831</u>
Change in net assets	52,257
Net assets-beginning	<u>30,373,898</u>
Net assets-ending	<u><u>\$ 30,426,155</u></u>

**NOTE 18 – ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS**

All state agencies and institutions were required to adopt a capitalization limit of \$5,000 for movable personal property (including library materials) and \$100,000 for depreciable land improvements, buildings and improvements, and intangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the University removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statements No. 34 and 35 as discussed in Note 1, the University was also required to make certain changes in accounting principles, specifically (1) adoption of depreciation on capital assets and (2) recording of certain summer semester revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted. The University was also required to record a liability for federal capital contributions to the Perkins loan program which they will be required to pay if the University ends its participation in the program.

The University made a correction of an error involving the application of an accounting principle. In previous years, revenues from State capital improvement bonds were recognized when the bonds were authorized by the legislature. Because the University is entitled to seek reimbursement for construction costs only to the extent of expenses incurred for the approved capital projects, certain capital improvement bond proceeds revenue previously recognized had not been earned at June 30, 2001.

**FRANCIS MARION UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

The University has restated its beginning net assets as of July 1, 2001, for the above accounting changes and corrections, which are disclosed in the following schedule.

Net assets, July 1, 2001, as previously reported	\$78,690,219
Corrections of errors:	
Capital improvement bond revenue recognized in error	(776,184)
Restatement adjustments:	
Reclass Perkins federal capital contributions as a liability	(1,572,369)
Accumulated depreciation of capital assets	(30,261,709)
Change in capitalization levels	(15,662,197)
2002 summer semester revenues recognized in 2001	<u>(43,862)</u>
Net assets July 1, 2001, as restated	<u><u>\$30,373,898</u></u>

**FRANCIS MARION UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Total Expenditures</u>
<b>Direct Programs:</b>			
<b>U.S. Department of Justice</b>			
COPS Universal Hiring Program	16.710	2001UMWX0269	\$
<b>U.S. Department of Education</b>			
Supplemental Educational Opportunity Grant	84.007	PO7A53784	198,280
Federal Work Study	84.033	PO33A53784	142,202
Federal Perkins Loan Program	84.038	PO38A53784	1,953,191
Federal Pell Grant Program	84.063	PO63P56065	2,689,311
Preparing Tomorrow's Teachers to Use Technology	84.342	P342A000184	207,943
<b>U.S. Department of Agriculture</b>			
Distribution and Population Estimates of the Eastern Woodrat in Francis Marion National Forest	10.999	00-CS-11081209-029	<u>6,382</u>
<b>Total Direct Programs</b>			<u>5,220,387</u>
<b>Indirect Programs:</b>			
<b>U.S. Department of The Interior</b>			
Passed through the National Wildlife Federation Wildlife Conservation and Appreciation	15.617	None	
<b>U.S. Department of Education</b>			
Passed through National Writing Project Corp. National Writing Project - Swamp Fox Writing Project	84.928	00-SC10	
<b>National Science Foundation</b>			
Passed through the Consortium for Mathematics and its Applications Mathematical and Physical Sciences	47.049	DUE-9555414	<u>17,081</u>
<b>Total Indirect Programs</b>			<u>43,393</u>
<b>Total Federal Assistance</b>			<u>\$ 5,263,780</u>

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





# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

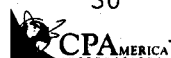
We have audited the financial statements of Francis Marion University ( the University) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

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



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 22, 2002



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

### Compliance

We have audited the compliance of Francis Marion University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2002. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

### 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.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Rogers + Lalan, PA*

August 22, 2002

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

**FOR THE YEAR ENDED JUNE 30, 2002**

**SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS:**

1. An unqualified opinion dated August 22, 2002 on the financial statements of the University for the year ended June 30, 2002 was issued.
2. No reportable conditions related to internal control over financial reporting were noted.
3. No instances of noncompliance which were material to the financial statements were noted.

**FEDERAL AWARDS:**

4. An unqualified opinion on compliance for the major program dated August 22, 2002 was issued.
5. There are no findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133.
6. The major programs of the University are as follows:

<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 not determined to be a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

No material reportable conditions were noted during our audit.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

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